# OECD Economic Surveys
# ITALY

SEPTEMBER 2021

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# OECD Economic Surveys: Italy 2021

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**Please cite this publication as:**
OECD (2021), *OECD Economic Surveys: Italy 2021*, OECD Publishing, Paris, *https://doi.org/10.1787/07d8b9cd-en*.

ISBN 978-92-64-91211-3 (print)
ISBN 978-92-64-79064-3 (pdf)

OECD Economic Surveys
ISSN 0376-6438 (print)
ISSN 1609-7513 (online)

OECD Economic Surveys: Italy
ISSN 1995-3283 (print)
ISSN 1999-0340 (online)

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This Survey is published on the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries. The economic situation and policies of Italy were reviewed by the Committee on 6 July 2021. The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole Committee on 22 July 2021. The Secretariat's draft report was prepared for the Committee by Catherine Macleod (Senior Economist) and Tim Bulman (Senior Economist), with contributions from Ruggero Doino, under the supervision of Isabelle Joumard (Head of Division). Statistical research assistance was provided by Béatrice Guérard and editorial assistance by Heloise Wickramanayake and Gemma Martinez. The previous Survey of Italy was issued in April 2019. Information about the latest as well as previous Surveys and more information about how Surveys are prepared is available at www.oecd.org/eco/surveys

## Basic statistics of Italy, 2019[1]

(Numbers in parentheses refer to the OECD average)[2]

| | | | | | |
|---|---|---|---|---|---|
| **LAND, PEOPLE AND ELECTORAL CYCLE** | | | | | |
| Population (million) | 60.3 | | Population density per km² (2018) | 202.9 | (38.1) |
| Under 15 (%) | 13.2 | (17.9) | Life expectancy at birth (years, 2018) | 83.3 | (80.1) |
| Over 65 (%) | 23.0 | (17.1) | Men (2018) | 81.2 | (77.5) |
| International migrant stock (% of population) | 10.4 | (13.2) | Women (2018) | 85.6 | (82.8) |
| Latest 5-year average growth (%) | -0.2 | (0.6) | Latest general election | March-2018 | |
| **ECONOMY** | | | | | |
| Gross domestic product (GDP) | | | Value added shares (%) | | |
| In current prices (billion USD) | 2 004.7 | | Agriculture, forestry and fishing | 2.1 | (2.7) |
| In current prices (billion EUR) | 1 790.7 | | Industry including construction | 23.9 | (26.6) |
| Latest 5-year average real growth (%) | 1.0 | (2.2) | Services | 74.0 | (70.8) |
| Per capita (000 USD PPP) | 44.4 | (47.6) | | | |
| **GENERAL GOVERNMENT** Per cent of GDP | | | | | |
| Expenditure | 48.6 | (40.6) | Gross financial debt (OECD: 2018) | 156.1 | (107.6) |
| Revenue | 47.1 | (37.5) | Net financial debt (OECD: 2018) | 126.7 | (67.9) |
| **EXTERNAL ACCOUNTS** | | | | | |
| Exchange rate (EUR per USD) | 0.89 | | Main exports (% of total merchandise exports) | | |
| PPP exchange rate (USA = 1) | 0.67 | | Machinery and transport equipment | 33.4 | |
| In per cent of GDP | | | Miscellaneous manufactured articles | 19.1 | |
| Exports of goods and services | 31.8 | (53.6) | Manufactured goods | 16.8 | |
| Imports of goods and services | 28.4 | (50.1) | Main imports (% of total merchandise imports) | | |
| Current account balance | 3.3 | (0.3) | Machinery and transport equipment | 28.1 | |
| Net international investment position | -1.7 | | Chemicals and related products, n.e.s. | 16.5 | |
| | | | Manufactured goods | 14.9 | |
| **LABOUR MARKET, SKILLS AND INNOVATION** | | | | | |
| Employment rate (aged 15 and over, %) | 44.9 | (57.5) | Unemployment rate, Labour Force Survey (aged 15 and over, %) | 10.0 | (5.4) |
| Men | 53.8 | (65.6) | Youth (aged 15-24, %) | 29.2 | (11.8) |
| Women | 36.7 | (49.9) | Long-term unemployed (1 year and over, %) | 5.6 | (1.4) |
| Participation rate (aged 15 and over, %) | 49.9 | (61.1) | Tertiary educational attainment (aged 25-64, %) | 19.6 | (38.0) |
| Average hours worked per year | 1,718 | (1,726) | Gross domestic expenditure on R&D (% of GDP, 2018) | 1.4 | (2.6) |
| **ENVIRONMENT** | | | | | |
| Total primary energy supply per capita (toe) | 2.4 | (3.9) | CO2 emissions from fuel combustion per capita (tonnes) | 5.0 | ( 8.3) |
| Renewables (%) | 18.2 | (10.8) | Water abstractions per capita (1 000 m³, 1998) | 0.7 | |
| Exposure to air pollution (more than 10 µg/m³ of PM 2.5, % of population) | 91.4 | (61.7) | Municipal waste per capita (tonnes) | 0.5 | (0.5) |
| **SOCIETY** | | | | | |
| Income inequality (Gini coefficient, 2017, OECD: 2016) | 0.334 | (0.315) | Education outcomes (PISA score, 2018) | | |
| Relative poverty rate (%, 2017, OECD: 2016) | 13.9 | (11.7) | Reading | 476 | (487) |
| Median disposable household income (000 USD PPP, 2017, OECD: 2016) | 24.2 | (22.8) | Mathematics | 487 | (489) |
| Public and private spending (% of GDP) | | | Science | 468 | (489) |
| Health care | 8.7 | (8.8) | Share of women in parliament (%) | 35.7 | (30.7) |
| Pensions (2017) | 16.4 | (8.6) | Net official development assistance (% of GNI, 2017) | 0.3 | (0.4) |
| Education (% of GNI, 2018) | 3.7 | (4.5) | | | |

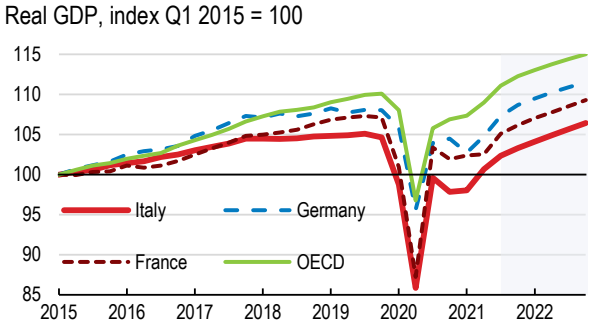
1. The year is indicated in parenthesis if it deviates from the year in the main title of this table.
2. Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries.
Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, United Nations, World Bank.

# Executive summary

## The economy is emerging from the COVID-19 pandemic

**The pandemic's early onset and high fatality rates necessitated intensive lockdowns**, resulting in a severe contraction in the Italian economy (Figure 1). Regionalised lockdowns and new modes of working have reduced the impact of restrictions on activity since then. The vaccine campaign, which first prioritised the most vulnerable to reduce pressure on hospitals, has been extended to all over 12.

### Figure 1. The economic contraction was severe




Note: Shaded area indicates projections.
Source: OECD (2021), OECD Economic Outlook 109 (database) and provisional projections.

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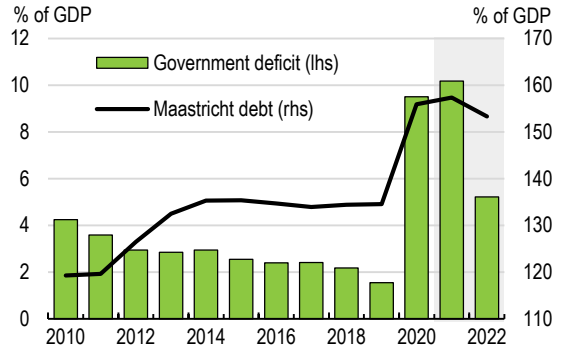
**Generous government support mitigated job losses and hardship and preserved productive capacity** (Figure 2). Loan guarantees and moratoria on debt repayments supported firm liquidity and limited bankruptcies. Short-time work schemes and a ban on firing were supplemented with income support for those falling out of existing safety nets, as well as tax payment deferrals. School attendance and educational outcomes worsened for the most disadvantaged, whilst the lockdown has been associated with higher domestic violence.

**Significant fiscal support in 2021 will buoy the near-term recovery** as vaccination rates accelerate and restrictions ease. Higher public investment, including from Next Generation EU funds, will support private sector investment, alongside higher confidence and demand (Table 1). GDP will reach 2019 levels by the first half of 2022. Consumption is expected to rise as households are able to consume part of their savings and employment recovers.

### Figure 2. The government responded swiftly to the COVID-19 crisis




Source: OECD (2021), OECD Economic Outlook 109 (database) and provisional projections.

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### Table 1. Exports and investment lead the recovery

| (annual growth rates, unless specified) | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| Gross domestic product | 0.3 | -8.9 | 5.9 | 4.1 |
| Private consumption | 0.3 | -10.7 | 4.7 | 4.5 |
| Government consumption | -0.8 | 1.6 | 0.9 | -0.6 |
| Gross fixed capital formation | 1.1 | -9.2 | 15.9 | 8.7 |
| Exports of goods & services | 1.9 | -14.5 | 12.0 | 7.1 |
| Imports of goods & services | -0.5 | -13.1 | 12.3 | 7.5 |
| Unemployment rate (%) | 10.0 | 9.3 | 10.4 | 10.1 |
| Consumer price index | 0.6 | -0.1 | 1.5 | 1.3 |
| Current account balance (% of GDP) | 3.2 | 3.5 | 3.3 | 3.3 |
| General government fiscal balance (% of GDP) | -1.6 | -9.5 | -10.6 | -5.7 |
| General government gross debt (% of GDP, Maastricht definition) | 134.6 | 155.9 | 158.6 | 155.1 |

Source: OECD (2021), OECD Economic Outlook (database) and provisional projections.

**Fiscal policy should continue to support households and firms until the recovery is firmly underway, and become increasingly targeted.** Withdrawing liquidity support too early could force otherwise viable firms into bankruptcy. It would also raise unemployment and poverty, which were already high before COVID, affecting youth and women particularly. New labour market incentives seek to encourage hiring as the

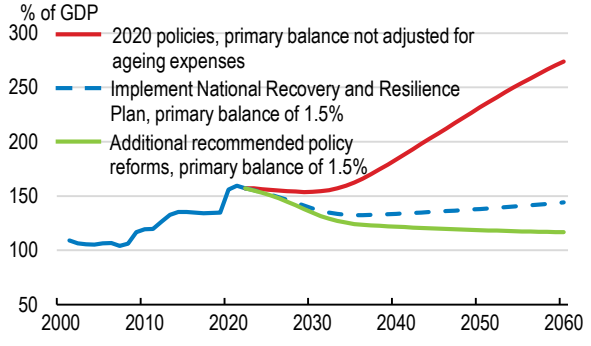
economy improves. Italy has a wide range of instruments to support firms in raising equity and loans as they emerge from the crisis.

**For unviable firms, swift resolution processes should be put in place.** Addressing lengthy court proceedings and ineffective case management will lower uncertainty and raise recovery rates. The planned bankruptcy code could facilitate earlier, more successful restructuring of firms. However, the expected rise in bankruptcies due to COVID will require procedural adaptations to prevent system overload. The non-performing loans market has developed rapidly. Reducing information asymmetries between banks and possible buyers of loan assets, which are higher in times of crisis, would help reduce the costs of bankruptcies.

**After the pandemic subsides, fiscal policy must reorient to support higher growth and job creation**. Prior to the COVID crisis, Italy ran consistent primary surpluses, but public debt to GDP did not fall due to weak growth. Ageing-related expenses crowd out investment in infrastructure, education and training. Reallocating public spending and tax can raise growth and improve the bias against the young, many of whom are out of employment and at risk of poverty. Faster trend growth can help reduce debt (Figure 3).

### Figure 3. Faster growth is needed to improve the debt-to-GDP ratio

Debt-to-GDP ratio scenarios




Source: Ministry of Finance and Economy; OECD (2021), OECD Economic Outlook (database); Turner and Guillemette (2021) and OECD calculations.

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## Supporting a greener, job-rich recovery is the priority

**Addressing Italy's weak economic growth and ageing demographics requires tackling long-standing structural challenges.** These include low levels of investment, productivity and employment, ineffective public administration, high regulatory burdens and sharp regional divides (Figure 4). Addressing these challenges would improve the economy's resilience to shocks and reverse the trend of stagnating GDP per capita.

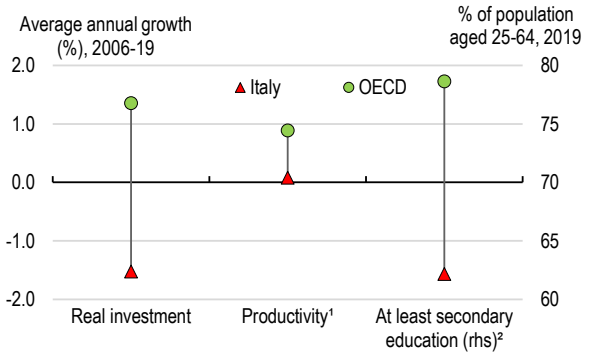
**The National Recovery and Resilience Plan combines an ambitious structural reform agenda and large investments, offering a unique opportunity to transition to higher productivity and decarbonised growth.** Structural reforms prioritise improving public administration effectiveness, civil justice and competition. These are complemented with EUR 235 billion in spending, utilising Next Generation EU grants and loans and increased national resources. Key priorities for investment are to support greener energy and transport and faster digitalisation. Human capital investment prioritises education, health and research and development. The South receives about 40% of resources to combat regional inequalities. The planned introduction of a longer term strategy to reform tax policy could further raise compliance, employment and firm dynamism.

**Chances of successful implementation of structural reforms and public investment projects are greater than in the past.** Clear milestones and targets have been set for the disbursement of Next Generation EU grants and loans. Governance innovations have been introduced to accelerate problem identification and spending, alongside enhanced monitoring for compliance. The legislative agenda to achieve the reforms will be challenging, but recently passed legislation to simplify green investments and support decision-making is a positive start. Public administration reforms will raise implementing capacity.

**Significant green investment plans should be supported with lean regulations, green taxes and carbon pricing changes.** A clear, long-term path for harmonising and gradually raising carbon pricing would guide decision-making. An explicit

strategy to manage the potential revenue gains and the costs of the transition, particularly for industries facing competitive pressures and lower income households, would provide certainty to investors and improve social buy-in. Well-designed regulations, standards and norms could further reinforce behaviour change.

## Figure 4. More physical and social capital is key to raise growth




Note 1: USD per hour worked, constant 2015 prices and PPPs.
Note 2: Share of population aged 25-64 having attained at least upper secondary education.
Source: OECD (2021), OECD Economic Outlook 109 (database); OECD Productivity (database); and OECD Education at a Glance (database).

StatLink https://stat.link/ugzwp2

**Investment rates are amongst the lowest in the OECD, held back by uncertainty, high leverage and a lack of access to equity finance.** Higher public investment funded by Next Generation EU and generous fiscal incentives can crowd in private investment, provided leverage levels do not reduce firm risk-taking. Improving the quality of public administration and actions to reduce perceptions of corruption would lower the need for fiscal incentives and also support investment. Faster roll-out of broadband would support private sector digitisation and greater take-up of the expanding range of public services available online.

**Stagnant productivity growth over the last two decades** has been due to lagging services sector productivity. Productivity in the manufacturing sector has risen due to higher investment and the exit of less productive firms. Conversely, regulatory barriers, including those which conflict with recommendations from the competition authority, create high barriers to entry in retail sales as well as professional services. This in turn depresses competition and innovation.

**Creating more and better jobs will require adjusting labour taxes**. Short-time work and the ban on firing have limited redundancies. But youth and women, and those in the South, who tend to be hired on temporary and fixed term contracts, have been less protected. Temporary cuts in social security contributions will help as the economy recovers, but the high labour tax wedge remains a key obstacle. Female labour force participation remains very low, exacerbated by limited public support for childcare and high marginal effective tax rates for second income earners.

**The quantity and quality of skills must rise to counteract low levels of digital literacy and ongoing adult learning**. Support for employment is focused on hiring incentives. Despite the skills shortage, take up of existing worker training funds is low, especially for small businesses. Challenges remain in the delivery of public employment services, although the government is introducing a new approach to training the unemployed.

**Tax reforms can improve growth and equity outcomes given Italy's high tax take and evasion rates**. The number of tax expenditures is high and contributes to complexity. Labour taxes are a larger share of revenue, and consumption and inheritance taxes a smaller share than the OECD average. The low VAT share is partly due to poor compliance. The VAT exemption threshold is high. Greater use of technology and card payments should improve compliance and monitoring. Efforts to improve income tax equity should take into account the incidence of tax expenditures as well as property taxes, including on inheritance and immovable property.

## Improving public sector effectiveness is key to sustaining the recovery

**Raising the effectiveness of Italy's public sector is more urgent than ever.** It will be key to achieving the planned boost to public investment, improving the business environment and ensuring quality public services can be accessed across Italy. The quality of public goods and services is variable, and a large stock of regulations and onerous and uncoordinated enforcement

processes drag firms' dynamism. Trust in public institutions is one of the lowest across OECD countries. In the coming years, Italy will have an unprecedented opportunity to improve the effectiveness of its public sector, through the Resilience and Recovery Plan's resources and policy goals, the renewal of the public service and the contributions from digitalisation and innovation.

**There is scope to better prioritise public spending.** Lack of fiscal space limits funding for the most growth-supporting public activities (Figure 5). Information about activities' performance or contribution to the government's priorities has limited influence on budget allocation decisions. Developing good indicators and analysis capacity in line ministries and further strengthening regular spending reviews would improve public spending allocations.

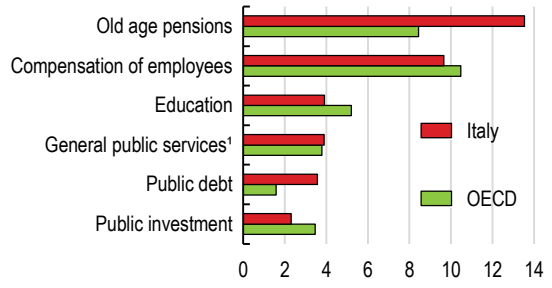
**Regulatory burdens remain high, despite significant improvements in the process for preparing new regulations.** A review of Italy's large stock of existing regulations, with a focus on reducing the number and improving the quality of regulations, would help simplify the regulatory environment. Improving coordination among agencies that implement regulations, and shifting their focus from enforcement to supporting compliance would support the business environment.

**The public administration could become stronger and more agile**. Staff with the necessary skills are lacking across the public administration. The accelerating retirement of public servants over the coming decade will allow renewal, if recruitment is more agile and anticipates skill needs and if retiring public servants can transmit their experience to new recruits. Stronger skills will also be essential to further leverage the benefits of digitalisation. Regulatory requirements and the threat of judicial sanctions lead decision makers to take defensive positions, rather than proactively supporting service delivery. Public servants' effectiveness could increase if performance was better recognised and rewarded.

**Strengthening coordination, support and incentives across Italy's multi-layered government would improve its effectiveness.** This is especially the case for public procurement, where many small agencies have thin capacity to design and implement projects effectively. The public sector also intervenes across the economy through thousands of public enterprises, mostly owned by subnational governments. The benefits and costs of this public ownership should be regularly assessed, the governance of public enterprises improved, and those that do not support core public service delivery divested once the economic situation stabilises.

## Figure 5. Pension and debt costs leave little space for pro-growth and inclusive spending

Public expenditure in % of GDP, 2019 or latest




Note: Excludes public debt costs.
Source: OECD (2021), National Accounts Statistics (database).

StatLink https://stat.link/3nudma

| MAIN FINDINGS | KEY RECOMMENDATIONS |
|---|---|
| **Policies for a stronger and more resilient recovery from COVID-19** | |
| The economy is expected to recover to 2019 levels by the first half of 2022. Withdrawing support for individuals and companies too early would lead to more bankruptcies, lower employment and higher poverty.<br>Government debt rose to near 160% of GDP in 2021 and population ageing will put pressure on public finance. | Continue to provide fiscal support until the economic and employment recovery is well underway and make it increasingly targeted.<br>Announce in advance a medium-term fiscal plan to be implemented once the recovery is self-sustained to reduce the public debt ratio, taking into account the effects of an ageing population. |
| Higher post-COVID insolvencies raise bank balance sheets risks. Although banking sector resilience has improved, non-performing loans remain high by OECD standards. The well-developed non-performing loans market can play a key role in reallocating credit in the post-COVID recovery.<br>The court and early warning system risk being overwhelmed as the economy emerges from the crisis. Reforms to continue to improve the efficiency of the civil justice system are being considered by Parliament. | Introduce market-wide standards for valuing unlikely-to-pay loans. Increase resources for courts to better manage backlogs and improve speed and efficiency of civil justice court procedures. |
| **Public finance reforms are needed to support faster growth and more and better jobs** | |
| Despite relatively high public spending, spending that can best support growth and well-being is low and has been falling.<br>Next Generation EU grant funds are significant at 13.5% of 2020 GDP. Slow historic absorption of EU funds is due to hurdles in designing, approving and implementing programmes. Procurement is slow, competition limited and capacity varies widely. | Improve the composition of public spending to promote growth and job creation.<br>Consolidate smaller agencies' public procurement activities into higher capacity bodies. |
| Ageing- and interest-related expenditure pressures are high and set to rise in the longer term. The government has committed to returning to pre-COVID debt levels. | Contain pension spending by allowing the early retirement scheme (Quota 100) and the so-called women's option to expire in December 2021, and immediately re-establish the link between life expectancy and retirement age. |
| Tax revenue shares from labour are higher and VAT and inheritance lower than OECD peers. The tax wedge on labour is high, but has been lowered with income tax relief, family allowance reforms and temporary social security contribution cuts. The government intends to reform the tax system.<br>Labour force participation fell sharply in 2020 and remains particularly low for women, especially those with children. | Implement a holistic tax reform that reduces complexity and tax expenditures and permanently lowers taxes on labour, financed through improved compliance and higher taxes on immovable property and inheritance.<br>Improve access to quality childcare across all regions . |
| The recovery plan allocates 6.5% of GDP for green projects. Carbon tax pricing continues to favour diesel and industry. | Set a long-term plan to harmonise and gradually raise carbon prices, with policies and time to ease social and competitiveness transition costs. |
| SMEs do not access training funds enough. Current resources and structures will not reverse low adult learning rates and digital skills levels. | Increase access to adult skills attainment, with improved Training Fund application processes and better coordinated public employment services. |
| **Raise investment and productivity** | |
| Government incentives, including the recent temporary increase in the allowance for corporate equity, only partially offset regulatory obstacles to higher investment. Services productivity lags manufacturing, and firm growth levels lag OECD peers. Regulations are often anti-competitive. | Reduce regulatory barriers to entering professional services, including replacing licensing systems with less distortionary certification schemes |
| Penalties for engaging in corrupt activities increased in 2019. | Improve oversight and accountability of elected officials and magistrates to improve the quality of policies and build public trust. |
| **Enhance public sector effectiveness** | |
| Budget processes do not support reallocations to more effective spending. | Improve the allocation of resources and the effectiveness of spending through strengthened expenditure reviews also taking into account a succinct set of policy performance indicators. |
| Processes for preparing regulations have improved, but regulations and their enforcement remain burdensome. | Undertake stocktake reviews of regulations, starting with sectors that will be priorities for the post-COVID crisis recovery. |
| A shrinking and ageing workforce, shortages of relevant skills hold back the public sector's ability to deliver. | Rejuvenate the public sector workforce, through more agile recruiting, training and career management, with a particular focus on filling skill needs such as those for the digitalisation of the public sector. |
| Italy's hybrid decentralisation and overlapping policy competencies allows for innovation but can inhibit implementing policies or providing quality public goods and services. | Clarify competencies of different levels of government, supported by bodies that identify, disseminate and support effective practices. |

# 1 Key policy insights

The COVID-19 pandemic hit Italy hard, triggering the deepest recession since the Second World War. The government has prioritised bringing the health situation under control, and generously supporting livelihoods and firms. The economy is recovering as the vaccination campaign has expanded. Growth has broadened from manufacturing and investment to include services and consumption. The banking and non-financial corporate sectors are stronger than the start of the sovereign debt crisis. Together with the efforts to preserve economic capacity, this has helped the economy rebound.

To reverse the trend of stagnant real per capita GDP, the economic recovery must address the obstacles to higher rates of investment, productivity and employment. Too few firms are created and once they exist, they grow too slowly. Skills levels are low and emigration is high. Despite numerous legislative reforms, implementation tends to lag, with large gaps in public sector effectiveness affecting spending outcomes. Lengthy court disputes, investment approvals and other business processes reduce investment, as does regulatory uncertainty in critical areas such as green investment. With an ageing and fast-shrinking working age population, future growth will be very dependent on lifting investment, developing skills and raising the productivity of firms to the levels of Italy's top performers.

The National Plan for Recovery and Resilience outlines a set of structural reforms in public administration, civil justice and competition that will remove obstacles to growth and facilitate the financing of investments in faster, greener and more digitised growth. The scale of spending (EUR 235 billion), the broad scope of reforms, and the tight link between reforms and spending could amplify the potential growth and confidence impacts of reforms and investments. Implementation requires a more effective public administration, the focus of the special chapter of this Survey. Public finance reforms can allow more growth- and equity-enhancing spending, and lower the drag of the tax system on job creation.

Against this background, the main messages of the Survey are the following:

- Policy should remain supportive and increasingly targeted until the recovery is well underway. Faster growth will help to lower the public debt-to-GDP ratio. A medium-term fiscal plan needs to be established to reduce the public debt ratio, taking into account the future impact of an ageing population.
- The National Recovery and Resilience Plan requires implementing a demanding legislative and administrative reform agenda. Acting now to make the public administration more effective should include: revising budget allocations and regulations based on outcomes; a more agile public workforce; and, better leveraging the roles of different levels of government and private providers.
- There is considerable room to improve the composition of spending and taxation to support higher skills, employment and investment, whilst reforms to civil justice and competition, especially in services, can further be enhanced.

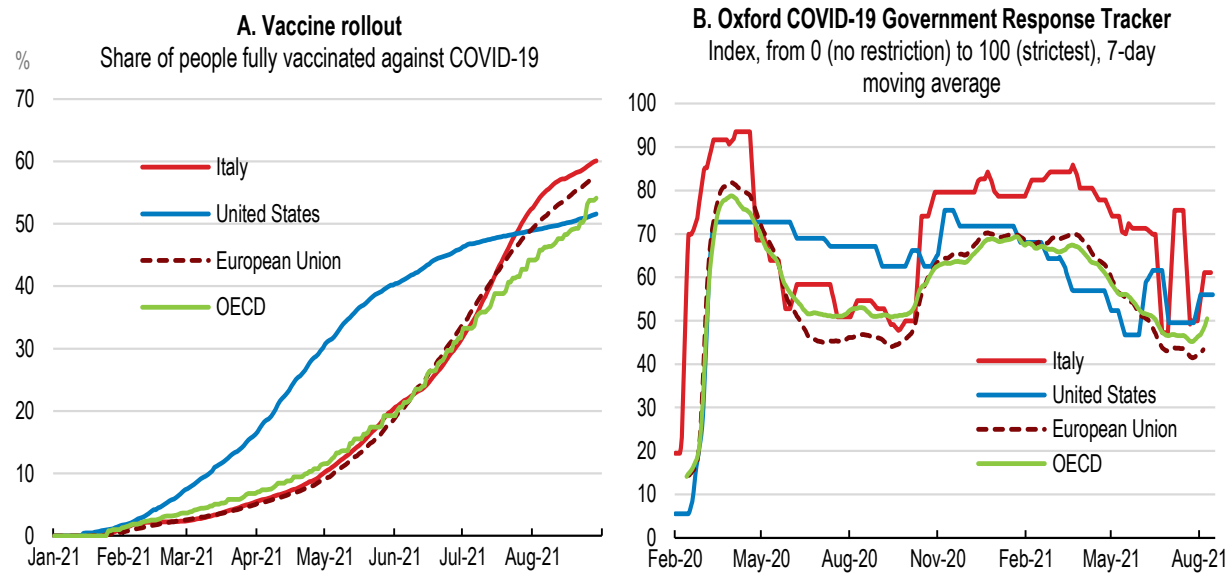
## The COVID-19 crisis hit a weakening economy

COVID struck as economic momentum had been slowing in 2019, following a modest expansion that began in 2015. Employment and investment levels had still not recovered from the successive shocks of the global financial crisis and the sovereign debt crisis. Per capita incomes, having grown modestly until 2008, have remained below 2 000 levels for the last 11 years. The government's priorities are to bring the health situation under control and create the conditions to raise Italy's growth – by preserving productive capacity and livelihoods, and then creating the environment to facilitate faster growth.

### *Successive COVID waves necessitated extensive mobility restrictions*

Italy was the first OECD country to impose a strict national lockdown in March 2020 in response to an early and sharp rise in fatalities. Subsequently, restrictions have primarily been applied regionally according to threat level. Vaccine rollout has improved alongside more secure supply and greater certainty about vaccine efficacy. The government plans to vaccinate 80% of the population by September 2021 (Presidenza del Consiglio dei Ministri, 2021[1]). Since the most vulnerable groups have been prioritised for vaccination, pressure on intensive care units should remain moderate. The government has updated its regionally based colour coded risk alert protocols, and has clear, published benchmarks for moving between risk levels, based on infection and hospitalisation rates. A green passport for those vaccinated, immune or tested against COVID has been introduced from 15 June 2021, in order to facilitate the safe re-opening of contact-intensive tourism and entertainment sectors. However, as for other countries, the potential spread of more infectious and deadly variants remains a risk.

### Figure 1.1. Improving vaccination rollout has allowed a gradual easing of activity restrictions




Note: The OECD unweighted average covers all OECD countries where data are available for all components. Panel A: Share of the total population that have received all doses prescribed by the vaccination protocol. Panel B: The Oxford COVID-19 Government Response Tracker index is a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, and is scaled from 0 (no restrictions) to 100 (highest category of restrictions).
Source: Our World in Data, https://ourworldindata.org/covid-vaccinations; and Oxford University.

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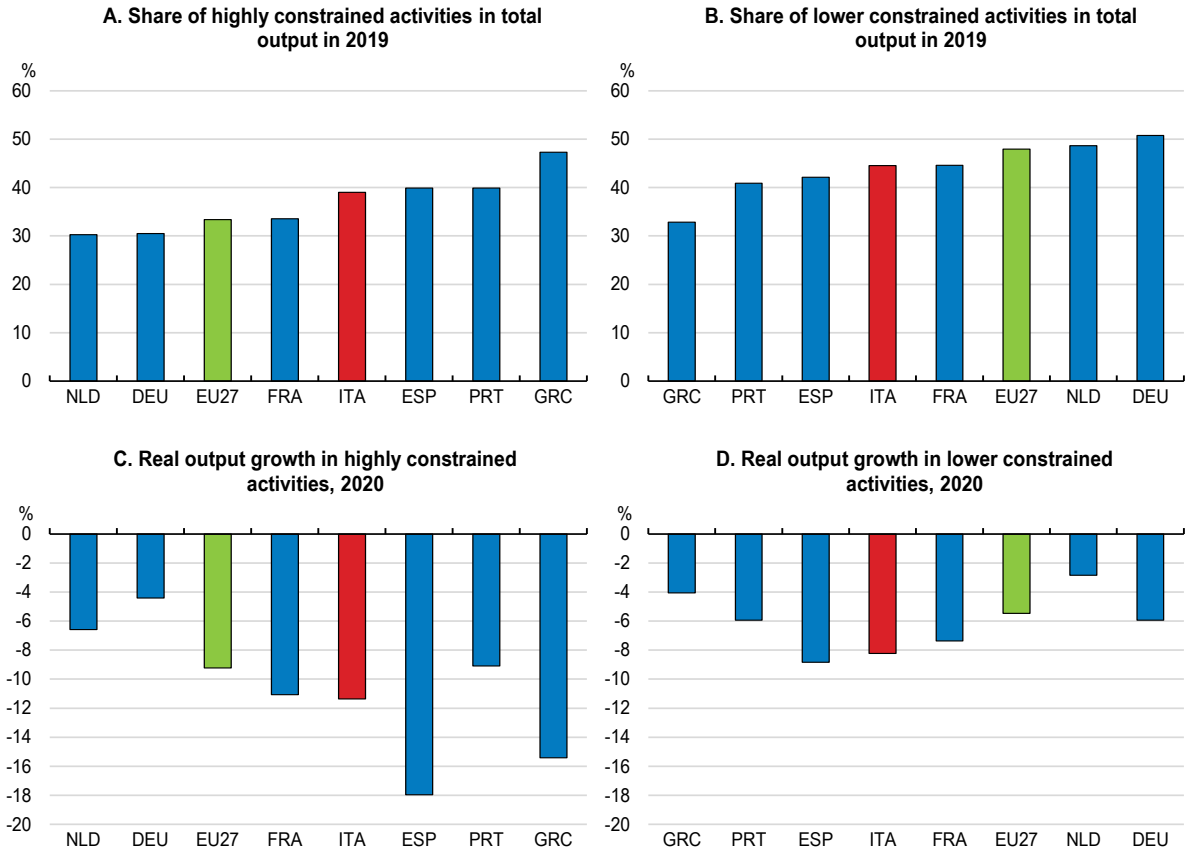
### *The economic and social impact of the pandemic has been severe*

The intensity of the first and subsequent lockdowns (Figure 1.1) was reflected in an abrupt drop in GDP in April 2020, resulting in a GDP contraction of 8.9% in 2020, one of the steepest in the OECD. In part, this was the result of the composition of Italian GDP: contact-intensive services make up a relatively large proportion of the economy compared to other large European countries (Figure 1.2, Panel A and B). Tourism accounts directly for about 6% of GDP and indirectly 13% of GDP. Foreign tourism accounts for 42% of in-country activity, similar to most OECD members. Activity fell both in sectors that were severely constrained by COVID-related restrictions, as well as in those that were less so (Figure 1.2, Panel C and D).

## Figure 1.2. The high share of severely restricted sectors amplified economic contraction




Note: Highly constrained activities include wholesale and retail trade, real estate and other services; lower constrained activities include industry (including manufacturing and construction), agriculture, ICT, finance and insurance, and professional, scientific and administrative support services. Public administration, health and education are not included in the analysis.
Source: OECD (2021), Quarterly National Accounts (database); OECD calculations.

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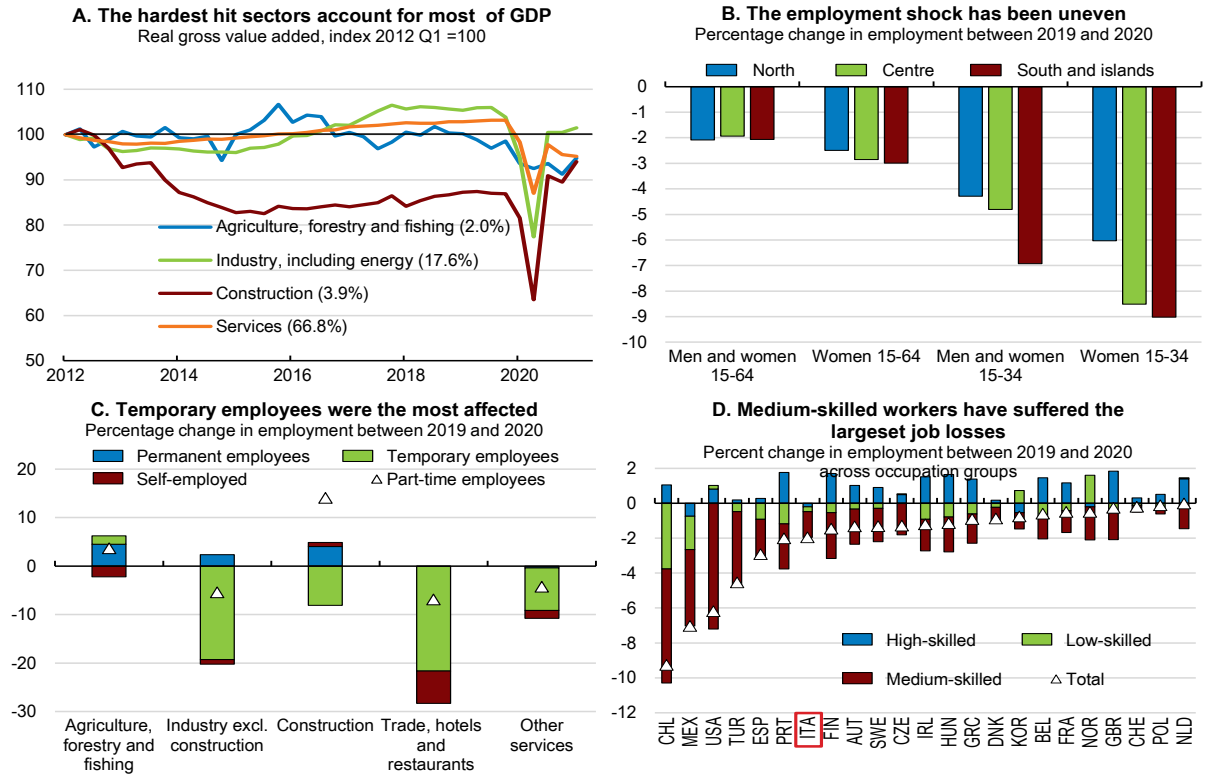
Manufacturing and construction activity has exceeded 2019 levels, as productive processes adapted relatively quickly to subsequent restrictions. The services sector by contrast, with a larger proportion of high-contact activities, has recovered less quickly (Figure 1.3.). Gross household savings rose sharply to 17.5% of GDP in 2020, due to precautionary motives and restrictions on activity limiting spending. Savings rates have fallen as restrictions on activity and consumption eased. The savings rate will, however, likely

remain elevated for some time - the wealthiest 20% of households, which have a lower propensity to consume additional income, hold 60% of savings (Rondinelli and Zanichelli, 2021[2]). As savings rose and investment fell, the current account surplus increased to 3.7% of GDP in 2020. The net international investment position became positive in the second half of 2020.

The slowdown in activity prompted a decline in hours worked, which fell by almost 13% in 2020. The participation rate fell in 2020 from 2019, as COVID-19 restrictions limited job search. The ban on firing and access to short-time work schemes limited job losses in 2020 to 2.8%. The unemployment rate fell to 9.3%, from 10% in 2019 as COVID restrictions and the weak job market reduced the labour force by 3.4% in 2020. Job losses fell disproportionately on youth and women, and in particular on young women resident in the South (Figure 1.3). These individuals are over-represented in less secure forms of work: temporary contracts fell by 11.8% in 2020 and permanent positions fell by 0.4%. Whilst the firing ban covered all employees in 2020, temporary contracts that expired were allowed to lapse. The number of self-employed fell by 4.1%. Medium-skilled workers were most affected.

## Figure 1.3. COVID impact has been broad – but the most vulnerable have suffered more




Note: Panel A: Figures in brackets indicate the share of the sector's value-added in GDP. Panel B and Panel C are based on 2020 ISTAT's data and do not yet reflect methodological changes relating to the implementation of Regulation (EU) 2019/1700 of the European Parliament and of the Council. Panel D: Skill classification is based on the International Standard Classification of Occupation (ISCO). Low-skilled occupations cover elementary occupations (ISCO-08 category 9). High-skilled occupations include ISCO-08 categories 1 to 3 (managers, professionals and technicians). Medium-skilled occupations include ISCO-08 categories 4 to 8 (clerical support workers, service and sales workers, skilled agricultural, craft and related trades workers, plant and machine operators).
Source: OECD (2021), Quarterly National Accounts (database); ISTAT; ILO short-term labour market statistics; and OECD calculations.

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### *The policy response cushioned the crisis' impact on firms and households – but the vulnerable remained heavily affected*

The initial policy response to COVID sought to limit hardship and maintain productive capacity by supporting cash flow and limiting bankruptcies and job losses (Box 1.1). The government provided wide-ranging direct budget support to households and firms. In order to preserve jobs, short-time work schemes were adapted to cover COVID-shutdowns and, in conjunction, a temporary ban on firing was put in place. Government guarantees, loan moratoria and macro-prudential regulations supported increased lending by banks, whilst monetary policy supported financial market liquidity.

The reach of these measures has been substantial. Over 7.2 million workers had benefitted from the wage supplementation scheme between March 2020 and February 2021 (INPS, 2021[3]). By November 2020, just under 2 in 5 firms with three of more employees requested liquidity and credit support (ISTAT, 2020[4]). State guarantees underwrote EUR 173.5 billion in new loans to small, medium and exporting firms (Banca d'Italia, 2021[5]). By mid-May 2021, debt moratoria covered EUR 144 billion in SME loans and EUR 23 billion in home loans.

Whilst poverty increased, public transfers limited the fall in households' disposable income in 2020 to 2.6% in real terms. Italy's social safety net, deepened in 2019 with the introduction of the Citizen's Income scheme, increased the size of transfers to the poorest households. As a result, poverty in the poorest households did not increase (ISTAT, 2020[4]). Workers with temporary or seasonal contracts (particularly in tourism), as well as the self-employed, were assisted with cash grants, as many were not covered by short-time work schemes, nor Citizen's Income. The relatively small size of these grants meant they likely had a proportionately larger cushioning impact on lower income households (Cantó Sánchez et al., 2021[6]). Access to social safety nets in the short term will need to take into account the nature of the employment recovery. Italy's social safety nets are targeted to the poorest individuals and households, and many more may remain at risk if the recovery in employment is slow.

Schools were fully closed for 13 weeks, similar to the OECD average, whilst partial closures affected schools for 24 weeks, five weeks more than the OECD average (UNESCO, 2021[7]). Children from less advantaged homes will find it harder to regain this lost time with online teaching, since they tend to have less space and less access to technological equipment (European Commission, 2020[8]). The lockdown worsened conditions for those living with domestic abuse. Between March and October 2020, calls for help from victims of violence and reports of violent cases doubled. The sharpest increases in the use of helplines have been among those over 65 and under 17 (ISTAT, 2020[9]). Migrants are likely to have seen hardship increase as many are excluded from social safety nets such as the Citizens' Income and are overrepresented in informal work.

## Past OECD recommendations on reducing poverty and vulnerability

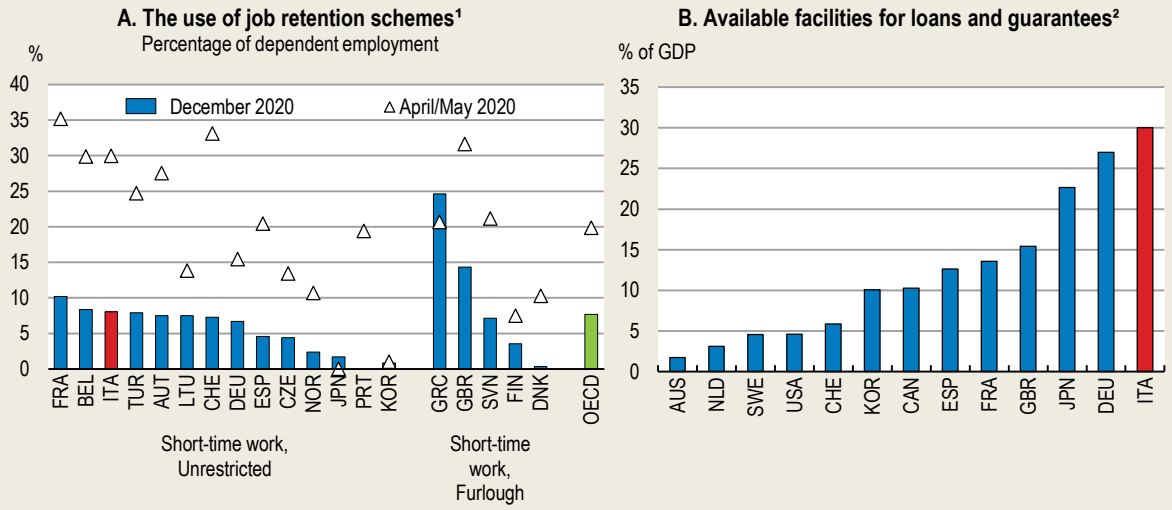
| Past recommendations | Actions taken since 2019 |
|---|---|
| Fully legislate and implement the already planned nationwide anti-poverty programme, target it towards the young and children and ensure it is sufficiently funded. | The Citizen's Income scheme, introduced in 2019, has helped to reduce the depth of poverty for the poorest. The incidence of working poor, however, has not been affected, given it is targeted to the poorest. Many migrants fall outside of the safety net. |
| **Ensure capacity to administer the Citizen's Income by building on and strengthening, where necessary, municipalities' social assistance services and establishing strong collaboration between them and public employment services.** | Social assistance services are provided to support the functioning of the Citizen's Income. The number of beneficiaries who have subsequently found employment has been low; authorities attribute this to beneficiaries' distance from the labour market. |
| **Lower and taper off Citizen's Income benefits to encourage beneficiaries to seek employment in the formal sector and introduce an in-work benefit for low-income earners** | The EUR 100 a month tax credit, which was expanded in terms of eligibility and made permanent in the 2021 budget, will benefit many low-income families. |

### Box 1.1. Italy's main fiscal policy responses to cushion the impact of the COVID-19 crisis

The Italian government approved a wide range of measures to cushion firms, jobs and households from the COVID-19 shock and to kick-start the recovery. The government estimates these measures' total value at EUR 108 billion in 2020 (6.6% of 2020 GDP) and EUR 72 billion in 2021 (4.1% of GDP). They were enacted through seven extensive decrees plus the 2021 budget. Major measures include:

- **Direct cash grants for firms**: Firms received cash grants based on the size of their loss in turnover. Initial measures targeted firms in the most affected regions and sectors, but these were expanded as they did not account for the impact of restrictions on value chain activities. Sector-specific funds are also available for some of the hardest hit sectors, such as tourism.
- **Loan guarantees for firms**: Over EUR 500 billion in loan guarantees was made available. The public guarantee schemes for small, medium and large firms were expanded, and a fee-free guarantee for new SMEs loans was introduced. SMEs in the most affected sectors received a moratorium to December 2021 on repaying loans.
- **Short-time work and measures to support employment**: Italy's existing short-time work scheme was enlarged, its coverage expanded to all sectors and firms, and the costs of accessing the funds was reduced.
- **Postponed tax and social contribution payments**: Tax and social security contribution payments were deferred for all firms in the most affected sectors, and for all firms in all sectors with revenues below EUR 2 million. VAT payments were deferred for all firms and self-employed working in the most affected provinces.
- **Household income support**: Several one-off payments have been made for those that did not benefit from short-time work schemes, including: cash payments to various categories of self-employed and seasonal workers; and supplementary monthly emergency income support of EUR 400 to EUR 800 for at-risk, low-income households. Childcare costs or costs to support carers obliged to take leave were funded. Unemployment benefits will not be affected by the duration of unemployment until 31 December 2021.
- **Supporting public authorities suffering revenue losses**: Fiscal transfers have been made to subnational governments, public authorities and state-owned enterprises.

**Figure 1.4. Italy has relied heavily on short-time work schemes and made provision for generous loan facilities**




1. Data are provisional. Short-time work - unrestricted: no significant limits on the reduction in working time; short-time work - furlough: no partial reductions in working time allowed. Portugal: data for December unavailable; Japan: ended scheme; Slovenia: scheme no longer operational. Due to data unavailability, the OECD average excludes Colombia, Costa Rica, Iceland, Israel, Latvia, Luxembourg and Mexico.
2. Data on guarantees are estimates consolidated from various national sources, and may not fully control for definitional differences and double counting.
Source: OECD (2021), OECD Employment Outlook 2021, Chapter 2 "Job retention schemes during the COVID-19 crisis: Promoting job retention while supporting job creation"; OECD COVID-19 Policy Response Tracker; OECD calculations and compilation of estimates by national authorities.

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### *Support is evolving as the recovery takes hold*

Most of the 2021 response package continues to support cash flow for a broad group of firms and households, targeting in particular those that have been most affected by the crisis. The risks from prematurely withdrawing support are asymmetric, given the size of the shock, its heavy toll on part-time and fixed term contracts, as well as women and the youth, and Italian firms with low cash levels. Guarantees and loan moratoria applications for SMEs and first-time buyers have been extended to the end of 2021. This balances the normalisation in bank lending standards and the gradual withdrawal of extraordinary access to short-time work schemes for all but the most heavily affected firms. As the recovery from the crisis continues, support will need to become increasingly targeted.

A number of measures are intended to offset the potential impact of the end to the ban on firing by large firms from 30 June 2021 and by smaller firms from 31 October 2021. Firms that do not reduce their workforce receive free access to short-time work schemes until the end of 2021. The solidarity contract allows firms that have experienced sharp losses in revenue to reduce wages by 70% if the workforce is maintained and the shift is agreed by unions. In addition, to support hiring in the short term, the government has introduced a new re-employment contract that waives social security contributions for six months for temporary contracts offered between July and October 2021, provided they are converted into permanent contracts at the end of the probation period. The expansion contract, which allows workers to retire early and thereby create space for new hires, can now be used by all firms with more than 100 employees. Fixed-term contracts can be renewed until the end of 2021 without limits on the number of extensions or providing reasons for the extension. Active labour market policies, necessary to support re-skilling of the

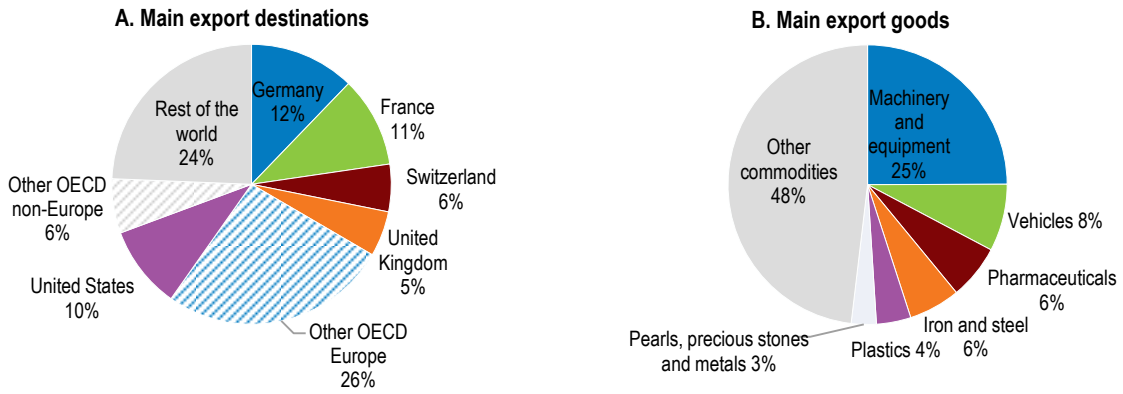
workforce and the unemployed, are proving more difficult to implement. In the longer term, reducing non-wage labour costs should remain a priority rather than continuing rigidity in firing policies (see below).

Reducing the risk of debt overhang is critical to safeguard investment for firms that remain solvent after the crisis (Demmou et al., 2021[10]). Measures to support faster investment and deleveraging include expanding tax credits for equity investments in SMEs, start-ups and non-listed companies, as well as a temporary increase in the generosity of the allowance for corporate equity in 2021. The Patrimonio Rilancio fund set up under Cassa Depositi Prestiti is able to undertake equity-like investments, such as convertible bonds, particularly for medium and larger firms. Further policies to encourage the use of equity financing, such as the allowance on corporate equity, and measures to reduce bankruptcy costs are discussed below.

The United Kingdom is an important trading partner. It receives 5% of Italy's merchandise exports (Figure 1.5). The full effects of Brexit will be clearer over time. Initial estimates of the impact of Brexit in Italy are relatively low compared to other EU countries (Arriola et al., 2020[11]). Trade data in 2020 and 2021 suggest the worst direct effects of Brexit on Italian goods exports were mitigated by avoiding a no-deal scenario. The value of the United Kingdom's imports from Italy have fallen far less than imports from the EU, and are more in line with changes in the United Kingdom's imports from the rest of the world. Italy's supply chains have also not experienced severe disruptions, with just 2.2% of Italian imports coming from the United Kingdom in 2020. The knock-on impact of restricted movement of people and services restrictions is estimated to be relatively low in Italy (Arriola et al., 2020[11]).

### Figure 1.5. Exports by main destinations and main goods

Share of total exports of goods, 2019




Source: OECD (2021), International Trade by Commodity Statistics database.

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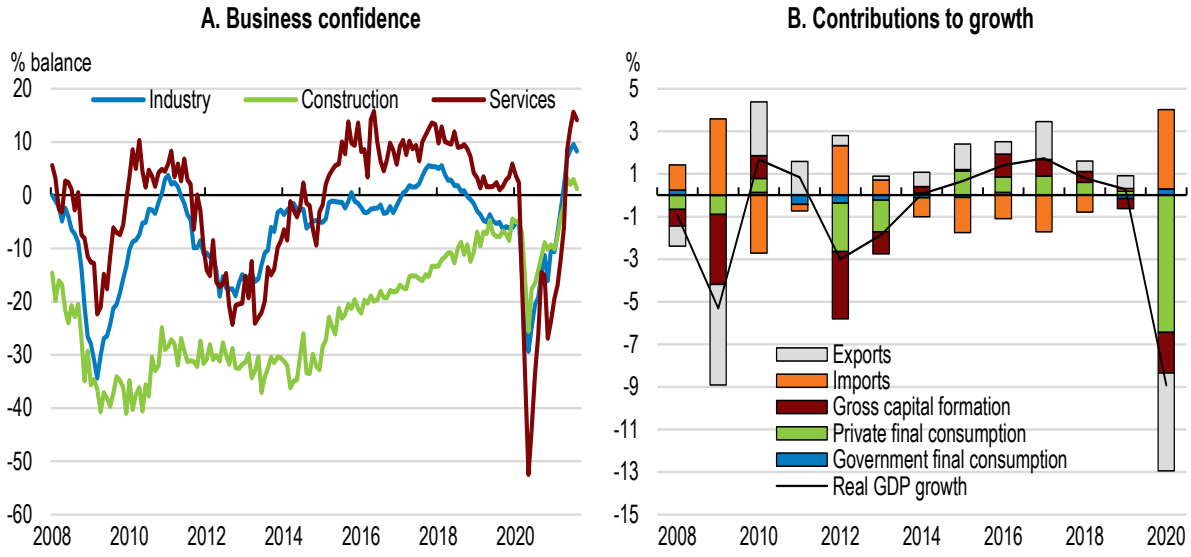
## The recovery will be gradual but subject to risks

The economy is projected to recover steadily from the COVID shock, reaching 2019 levels in the first half of 2022. Higher public investment, including from Next Generation EU funds, will help to crowd in private investment in 2022. Consumption is expected to recover as jobs return and lower uncertainty encourages households to reduce precautionary saving. Recent data show a significant increase in business and consumer confidence, which is encouraging for activity and employment (Figure 1.6). Price pressures will rise in the near term due to higher commodity and construction prices, but will remain contained over the medium term. The manufacturing sector will benefit from the recovery in export demand in key markets, as well as positive spillovers from the construction sector. The services sector has recovered quickly in

response to the government's vaccination programme and green card system. Low entry barriers in tourism and entertainment sectors should allow a relatively rapid rebuilding of productive capacity.

## Figure 1.6. Confidence has recovered, and investment is expected to lead the rebound




Source: EUROSTAT; and OECD Economic Outlook (database).

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Risks to the forecast are significant in both directions. The largest uncertainty lies in the evolution of the virus and the pace of vaccination in Italy and globally. Other downside risks include a reversal in the confidence recovery, higher or more rapid rates of bankruptcies and deeper-than-forecast scarring from the loss of business capacity or employment. This would likely worsen bank profitability and slow lending, although the systemic risk for the banking sector is lower than during the sovereign debt crisis. Upside risks include a sharper recovery in confidence, a more rapid drawdown of households' accumulated savings, faster-than-expected investment spending via the Next Generation EU funds, and more rapid implementation of structural reforms.

## Table 1.1. Low-probability events that could lead to major changes in the outlook

| Shock | Possible impact |
|---|---|
| Higher global interest rates not matched with higher growth or a significant and disorderly re-pricing of global risk premium | A rise in interest rates, if not accompanied by a commensurate increase in growth, would reinforce pressure on public finances and the domestic banking system. Italy would be particularly affected as its public debt-to-GDP ratio is high. |
| Significant delays in meeting conditionality of the Next Generation EU programme | Delayed or reduced support from the Next Generation EU package reduces growth and confidence, sharply raises risk premia and borrowing constraints. The required adjustment to spending and growth will be influenced by the response of monetary policy. |
| Disorderly domestic political changes slow down the pace of reform | Reduced political resolve to pass legislative package to implement structural reforms required for the release of Next Generation EU funds. Confidence falls, and investor uncertainty and spreads increase. |
| Bankruptcies increase sharply | High court caseload lengthens settlement times sharply, raises uncertainty in pricing non-performing loans, worsens bank balance sheets, raises risk premia and reduces bank lending. |

## Table 1.2. Macroeconomic indicators and projections

Annual percentage change, volume (2015 prices)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| | Current prices (EUR billion) | Percentage change, volume (2015 prices) | | | | |
| **Gross domestic product (GDP)** | 1 739 | 0.8 | 0.3 | -8.9 | 5.9 | 4.1 |
| Private consumption | 1 046 | 1.0 | 0.3 | -10.7 | 4.7 | 4.5 |
| Government consumption | 327 | 0.1 | -0.8 | 1.6 | 0.9 | -0.6 |
| Gross fixed capital formation | 304 | 2.9 | 1.1 | -9.2 | 15.9 | 8.7 |
| Housing | 71 | 0.7 | 1.6 | -8.8 | 19.0 | 5.7 |
| Final domestic demand | 1 677 | 1.2 | 0.2 | -8.1 | 5.9 | 4.3 |
| Stockbuilding[1,2] | 12 | 0.0 | -0.7 | -0.3 | -0.3 | 0.1 |
| Total domestic demand | 1 689 | 1.1 | -0.5 | -8.3 | 5.6 | 4.2 |
| Exports of goods and services | 536 | 1.6 | 1.9 | -14.5 | 12.0 | 7.1 |
| Imports of goods and services | 486 | 2.8 | -0.5 | -13.1 | 12.3 | 7.5 |
| Net exports[1] | 50 | -0.3 | 0.7 | -0.9 | 0.4 | 0.1 |
| **Other indicators (growth rates, unless specified)** | | | | | | |
| Employment[3] | | 0.9 | 0.6 | -2.8 | 1.4 | 1.8 |
| Unemployment rate (% of labour force)[3] | | 10.7 | 10.0 | 9.3 | 10.4 | 10.1 |
| GDP deflator | | 1.1 | 0.8 | 1.2 | 1.3 | 1.6 |
| Harmonised consumer price index | | 1.2 | 0.6 | -0.1 | 1.5 | 1.3 |
| Harmonised core consumer price index | | 0.6 | 0.5 | 0.5 | 0.7 | 0.8 |
| Terms of trade | | -0.6 | 0.7 | 3.7 | -1.9 | 0.0 |
| Household saving ratio, net (% of disposable income) | | 2.5 | 2.5 | 10.3 | 6.5 | 2.8 |
| Trade balance (% of GDP) | | 2.4 | 3.3 | 3.6 | 3.2 | 3.2 |
| Current account balance (% of GDP) | | 2.5 | 3.2 | 3.5 | 3.3 | 3.3 |
| General government fiscal balance (% of GDP) | | -2.2 | -1.6 | -9.5 | -10.6 | -5.7 |
| General government gross debt (Maastricht, % of GDP) | | 134.4 | 134.6 | 155.9 | 158.6 | 155.1 |
| Three-month money market rate, average | | -0.3 | -0.4 | -0.4 | -0.5 | -0.5 |
| Ten-year government bond yield, average | | 2.6 | 1.9 | 1.2 | 0.8 | 0.9 |

1. Contributions to changes in real GDP, actual amount in the first column.
2. Including statistical discrepancy.
3. Using provisional ISTAT data.
Source: OECD (2021), OECD Economic Outlook (database) and provisional forecast.

## The COVID-19 crisis has exacerbated some macro-financial vulnerabilities

### *Bankruptcy risks have increased but banks are better equipped to manage them*

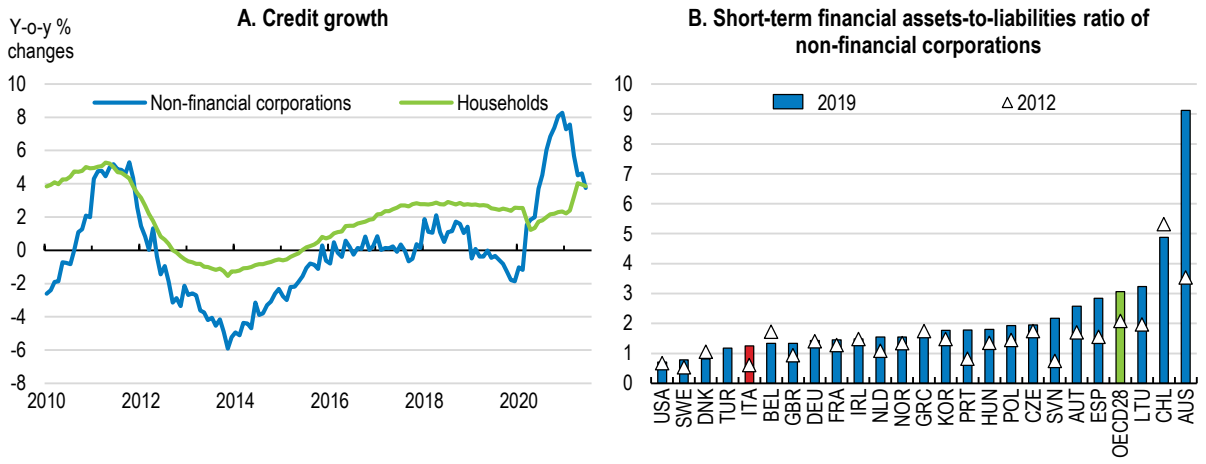
The government's liquidity support, alongside counter-cyclical bank regulations, resulted in credit constraints for firms that were the same or lower in late 2020 compared to late 2019. The rise in credit growth was a critical lifeline for Italian firms whose cash levels are relatively low compared to OECD peers (Figure 1.7). Although higher credit growth raised firms' leverage, many firms increased cash holdings and, on average, debt became longer-term, thanks to government guarantees (Banca d'Italia, 2021[12]). A moratorium on bankruptcy filings between March and June 2020 and reduced court activity due to the pandemic further assisted. As a result, bankruptcies fell by 22.7% in Italy in 2020 compared to a 58.1% rise during the global financial crisis (OECD, 2021[13]).By preserving otherwise-viable firms, these policies minimise the risk of lasting damage to the economy's productive capacity.

As support measures are gradually withdrawn, bankruptcies are likely to rise - although the average default rate is expected to remain below that of the global financial crisis (Banca d'Italia, 2021[12]).The share of the highest-risk firms (with a probability of default above 5%) rose from 10% before the COVID crisis to 14% by the end of 2020 (Banca d'Italia, 2021[12]). The performance of loans qualifying for moratoria suggests

that the aggregate rise in borrower vulnerability is concentrated amongst borrowers linked to pandemic-hit sectors (Banca d'Italia, 2021[12]).

Higher bankruptcies will weigh on banks in the context of relatively low profits and still high non-performing loans compared to other OECD countries (Figure 1.8). Nonetheless, the banking system is on a firmer footing than at the time of the sovereign debt crisis in 2012 (Box 1.2). Banks have raised capital adequacy and improved the identification, valuation and sale of non-performing loans. Sensitivity to short-term funding pressures has remained low. Liquidity levels are double the regulatory minima thanks to higher retail deposits and the European Central Bank's policies on bank holdings. Guidance to withhold the distribution of dividends has improved resilience in the short term. Furthermore, balance sheets are less sensitive to fluctuations in the market price of government bonds as the share of bonds valued at amortised costs has risen (European Commission, 2020[14]); (Banca d'Italia, 2021[12]).

## Figure 1.7. Swift policy responses have been a vital lifeline for access to finance given low cash holdings




Note: Panel B: Unweighted OECD average of available countries. Due to data unavailability, the OECD average excludes Canada and Switzerland.
Source: Bank of Italy, OECD (2021), National Accounts: Financial Indicators (database).

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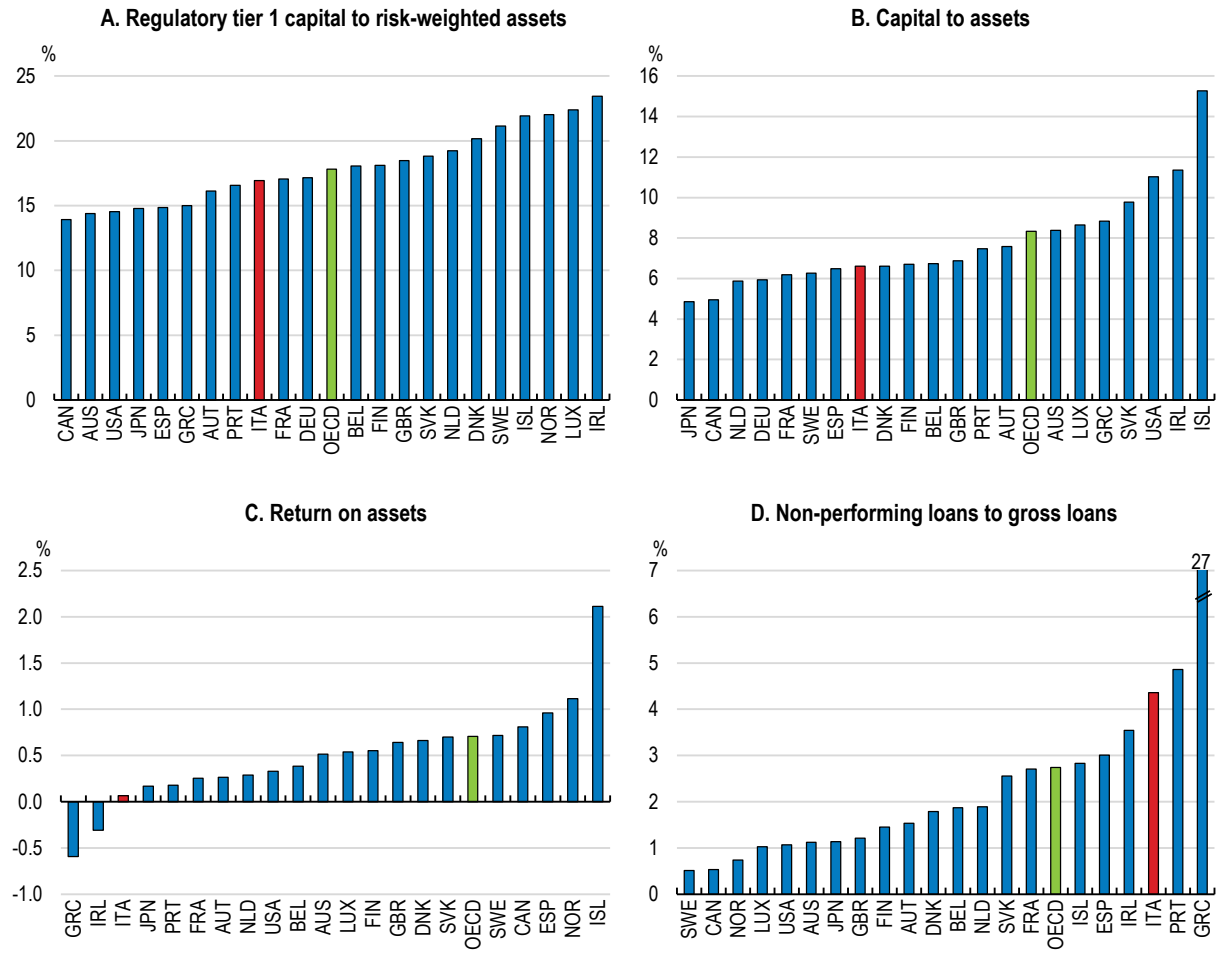
Continued efforts are required to monitor and actively manage the risks to bank balance sheets from the impact of the COVID-pandemic. In the last crisis, weak banks in Italy, as elsewhere, channelled loans to "zombie" firms, worsening the reallocation of credit (Acharya et al., 2019[15]). Current estimates suggest the number and credit needs of zombies are low (Schivardi and Romano, 2020[16]), reflecting improved bank risk management. However, the debt moratorium reduces the ability of banks to distinguish good and bad credit risks in real time (Bruno and Carletti, 2021[17]). To ensure that loans to non-viable firms are appropriately identified and removed from banks' balance sheets, a combination of strong regulatory oversight (particularly for smaller banks) and the continuation of incentives, such as tax credits for disposal of non-performing loans and guarantees for securitised loan tranches, is required.

The non-performing loans market has grown dramatically in Italy, but there is further room for development. Correct pricing is critical to support both the entry of investors willing to buy non-performing exposures and the sale of these loans by banks. More efficient court procedures would raise recovery rates and reduce uncertainty and risk. Guidance from the regulator as to standards on identifying at-risk loans would help establish market-wide standards, particularly in the more difficult to value "unlikely-to-pay" segment.

Common standards would reduce information asymmetries between banks and would-be purchasers of bank loans, and improve price-finding.

## Figure 1.8. Vulnerabilities remain in the banking sector

2020 Q4 or latest




Note: Each panel contains unweighted OECD average of available countries. Due to data unavailability, the OECD average excludes New Zealand and Switzerland for any panels.
Source: IMF (2021), IMF Financial Soundness Indicators Database; and Bank of Italy.

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Obstacles to faster cost-reduction by banks should be removed to support longer-term profitability in the banking sector. Whilst there has been some progress in branch reductions, banks should be further encouraged to undertake cost savings. Foreign investment in the banking sector is very low, and allowing it to increase, for example with the sale of smaller, non-systemic banks, would avoid the risk of weakening domestic banks and may help to strengthen competitive pressures.

## Box 1.2. The Italian experience in strengthening banks and the market for non-performing loans

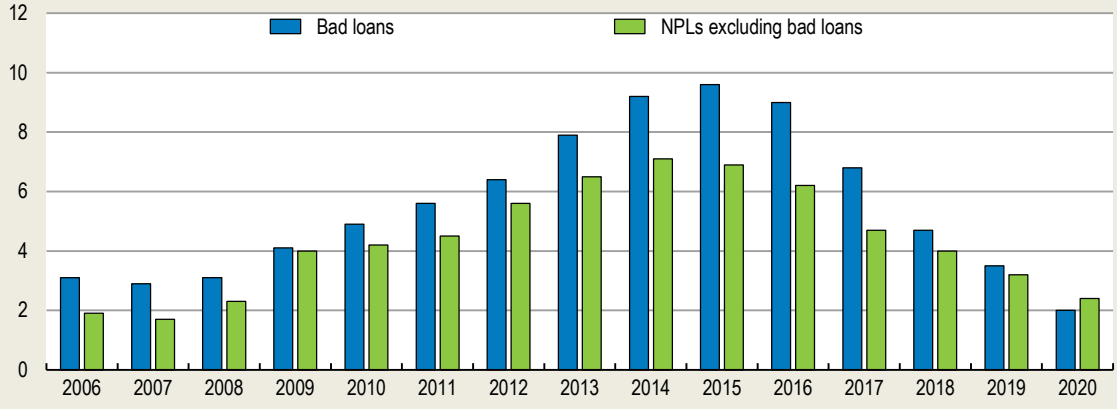
Following the sovereign debt crisis in the early 2010s, bank capital buffers have been raised and governance improved. Reforms to mutual and cooperative credit banks have accelerated the consolidation of banks in the sector. The crisis management framework for non-financial firms has been strengthened with the introduction of the new business crisis and insolvency code, which are due to enter into force in September 2021.

The reforms were complemented with efforts to help banks manage their non-performing loans (NPLs) (Figure 1.9). Stricter supervision improved provisioning for NPLs. Provisioning was also supported by transitional arrangements to the IFRS9 accounting standard, which do not require capital ratio increases with these provisioning increases. The government supports the sale of NPLs by offering tax credits for banks to make the sales, and incentivising firms to buy the loans by guaranteeing senior securitised loan tranches (the GACS "Garanzia sulla cartolarizzazione delle sofferenze"). The GACS scheme has underwritten EUR 14.4 billion in senior loans as part of EUR 17.7 billion in total securitisations (Banca d'Italia, 2021[12]).

In response to the COVID crisis, the government further incentivised banks to continue to sell NPLs in 2020 by offering generous tax credits. As a result, despite the fall in bankruptcies and low levels of activity, banks were able to sell around EUR 30 billion in 2020. The state-owned AMCO was a major purchaser of non-performing exposures in 2020 (Canino et al., 2020[18]). Market participants forecast a period of consolidation in the market for the purchasers of loans, as well as a shift towards increased use of securitised NPL products to attract more investors into the market. This will require improvements in how to value the unlikely-to-pay segment, a difficult category to assess in Italy as elsewhere – especially in loan exposures that are not securitised with real estate.

### Figure 1.9. Non performing and bad loans have been progressively reduced

Share of gross non-performing loans in gross total loans, %




Source: Bank of Italy.

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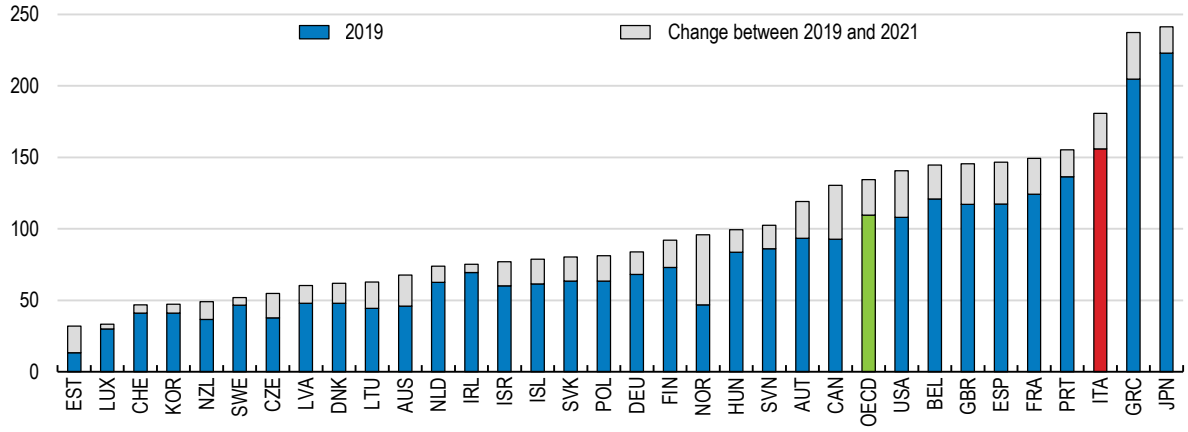
### *Risks to public finance sustainability*

The government's decision to strongly increase support given the prolonged fight against COVID-19 has resulted in a sharp increase in the public debt-to-GDP ratio in the OECD, adding to already high debt levels (Figure 1.10). Before this, the primary budget surplus averaged 1.5% of GDP between 2012 and 2019.

Even as COVID-related support spending is withdrawn, the government intends to increase investment spending between 2022 and 2024, delaying a reduction in the budget deficit to under 3% of GDP until 2025. A sustained increase in growth and continued low interest rates are required to achieve the government's target of reducing the debt to GDP ratio to 2019 levels (134% of GDP under the Maastricht definition) by 2030.

### Figure 1.10. Public debt levels have risen sharply and will remain elevated

General government gross debt, % of GDP




Note: Due to data unavailability, the OECD average excludes Chile, Colombia, Costa Rica, Mexico and Turkey.
Source: OECD (2021), OECD Economic Outlook (database).

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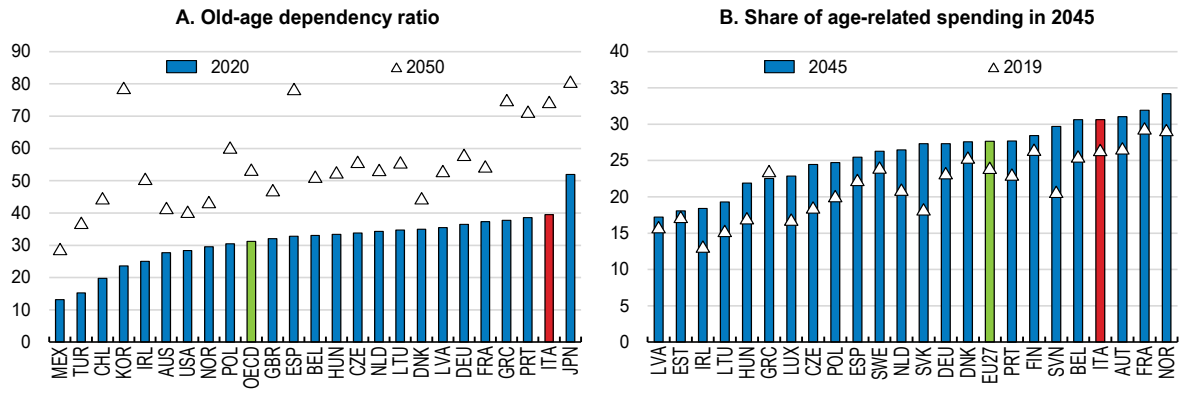
The relatively high public debt-to-GDP ratio increases Italy's sensitivity to interest rates changes. Interest payments are forecast to rise from EUR 57.3 billion in 2020 to EUR 61 billion in 2021 (3.7% of 2020 GDP), and gradually decline as a proportion of GDP as nominal growth increases (Ministero dell'Economia e delle Finanze, 2021[19]). Proactive debt management by the Treasury has lengthened the average residual life of issued debt to 6.9 years in March 2021 from 6.3 years in March 2014, helping reduce this pressure (Department of Treasury, 2021[20]). Going forward, the "snowball" effect (the difference between nominal growth and interest rates) is forecast to help reduce the debt to GDP ratio for the next 10 years (European Commission, 2021[21]). A rise in interest rates would, however, negatively affect Italy if not matched by a rise in the growth rate.

A series of comprehensive pension reforms since 2011, helped to contain the impact of ageing-related spending pressures (Ministero dell'economia e delle finanze, 2020[22]); (European Commission, 2021[21]). This is thanks in part to the rise in the retirement age which has beenlinked to life expectancy (OECD, 2019[23]).

Nonetheless, age-related spending will continue to rise over the next 25 years, due to health care and long-term care spending (European Commission, 2021[21]). With poor demographics, the old age dependency ratio will remain amongst the highest in the OECD (Figure 1.11). In the very long-term, as sustainable pension rules affect more of the workforce, pension spending will decline from 2045 to fall below 2019 levels by 2070 (European Commission, 2021[24]). In 2019, measures were introduced to delay the link between retirement age and life expectancy until 2026. The Quota 100 scheme, also introduced in 2019 and due to expire in December 2021, allows early retirement from age 62 with 38 years of contributions. If Quota 100 was permanently adopted, spending on pensions would lead to cumulatively higher spending of 11 percentage points of GDP between 2020 and 2045 (Ministero dell'economia e delle finanze, 2020[22]). It should be allowed to expire in December 2021. To further contain costs, permanent survivor pensions – which cost 2.4% of GDP compared to the OECD average of 1% – should not be available to those much younger than the standard the retirement age (OECD, 2019[23]).

Currently, the typical Italian pensioner enjoys higher incomes and lower poverty rates than their European counterparts – in contrast with those in work (Figure 1.12). In the long term, in spite of the projected reduction in pension expenditures to GDP, Italian pensioners will enjoy relatively high replacements rates vis-à-vis other EU workers. The "Citizen's Pension" introduced in 2019 substantially improved social protection for the aged (OECD, 2019[23]). However, some pensioners are at risk of poverty. The so-called "women's option", which allows early retirement on a notional defined contribution basis until December 2021, should not be renewed as it increases old-age poverty risks (OECD, 2019[23]).

## Figure 1.11. Spending on pensions is set to rise from already high levels – even with reforms




Note: Panel A: Number of individuals aged 65 and over per 100 people of working age (those aged between 20 and 64). Due to data unavailability, the OECD average excludes Colombia and Costa Rica. Panel B: Age-related spending is based on the European Commission's 2021 Ageing Report and is based on the reference scenario for the Ageing Working Group.
Source: OECD (2019), Pensions at a Glance (database); and European Commission (2021), The 2021 Ageing Report: Economic and Budgetary Projections for the EU Member States (2019-2070), Institutional Paper 148.

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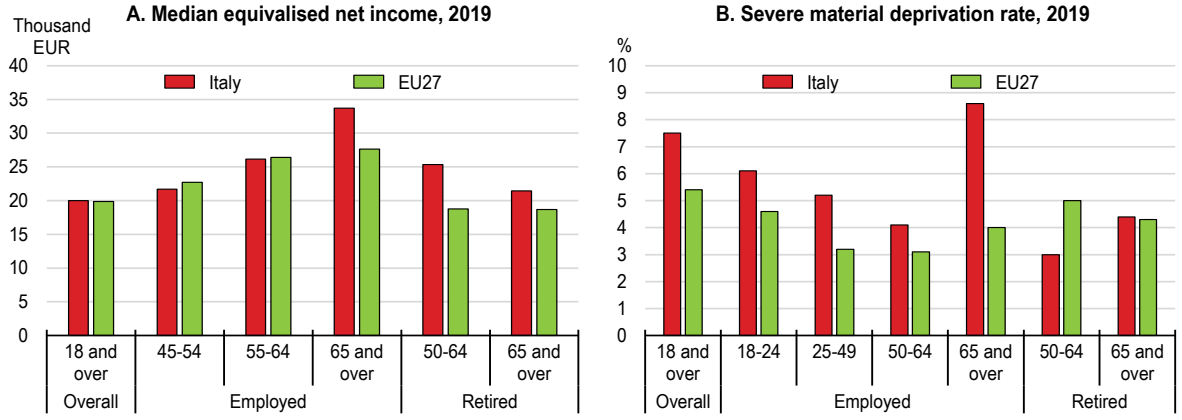
## Figure 1.12. Older Italians are relatively well off compared to counterparts in Europe




Note: Panel A: The median household disposable income includes all income from work (employee wages and self-employment earnings), private income from investment and property, transfers between households, all social transfers received in cash including old-age pensions. To take into account the impact of differences in household size and composition, the total disposable household income is "equivalised". Panel B: The severe material deprivation rate is the share of respondents living in households unable to afford at least four of the following items: unexpected expenses, a one-week annual holiday away from home, a meal involving meat, chicken or fish every second day, the adequate heating of a dwelling, durable goods like a washing machine, colour television, telephone or car, or are confronted with payment arrears.
Source: Eurostat (2020), Income and living conditions (database).

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Contingent liabilities increased to 13% of 2020 GDP, a rise of EUR 129.7 billion from 2019, as the government relied heavily on loan guarantees as a mechanism to improve liquidity during the COVID-19 crisis. The loans disbursed have been lower than the announced guarantee ceilings (Table 1.3). Contingent liabilities related to the COVID crisis stood at EUR 196.4 billion in July 2021 (7.1% of 2020 GDP). Any call on the guarantees will raise the overall public debt stock. Guarantees from the central guarantee fund cover loans issued for between 6 and 8 years. Loans issued by SACE tend to be asset backed and dominated by larger firms. Although debt moratoria cover a substantial EUR 193 billion in loans, the fiscal risks of this scheme are expected to be low, as the guarantee covers only 33% of payments due, after the banks have made a recovery effort. Approximately 22.9% of the stock of bank loans is high risk, with a greater-than 5% default probability (Banca d'Italia, 2021[12]).

### Table 1.3. Disbursements of COVID-related guaranteed loans are below the announced ceilings

| | Loan ceiling EUR billion | Stock of total amount disbursed | | Collateral provision EUR billion |
|---|---|---|---|---|
| | | EUR billion | % 2020 GDP | |
| Central Guarantee Fund[1] | n.a | 168 | 10.2 | 15.2 |
| SACE Guarantee Fund[2] | 200 | 26.4 | 1.6 | 29.3 |
| SACE trade credit insurance fund[3] | 2 | 2 | 0.1 | 1.7 |
| **Total[4]** | | **196.4** | **11.9** | **46.2** |
| ***Other notable instruments*** | | | | |
| Guarantees of debt moratoria for SMEs[5] | | 15.1 | 0.9 | |
| SACE export insurance[6] | | 50.9 | 3.1 | 30 |

Note: Data as of 2 July 2021. 1. *Fondo centrale di garanzia per le piccole e medie imprese*. These are primarily 100% loans to SMEs (up to 499 employees) distributed by the Central Guarantee Fund, available to finance amounts for up to 15 years for the 100% guaranteed loans or up to 8 years for 90% guaranteed loans. The guarantees can be granted until 31 December 2021. 2. *Garanzia Italia.* The government, through the export credit agency SACE, provides 90% guarantee for loans to firms with a turnover of less than EUR 1.5 billion; 80% for those between EUR 1.5 billion and EUR 5 billion and 70% for those with a turnover of greater than EUR 5 billion. The collateral provision is not an increase in SACE's share capital, but is instead a pre-authorisation of spend up to the ceiling should there be calls on the guarantees. This collateral provision is also intended to cover a second guarantee fund, which was provided for in the same legislation as the Fondo Garanzia Italia, with a EUR 200 billion loan ceiling, but this fund is not yet operational. 3. *Assicurazioni crediti commerciali.* Insures 90% of the risk of trade guarantees, up until 30 June 2021. 4. Does not include public guarantees in favour of Cassa Depositi e Prestiti (CDP S.p.A.) that were intended to guarantee up to 80% of loans to large firms experiencing a drop in turnover related to the pandemic emergency. The measure were not enacted as eligibility criteria and conditions for the access to the guarantee should be defined by a ministerial decree. 5. Guarantee covers just 33% of payments to be made under the moratorium, and is payable only after the banks have made a recovery effort. The moratoria on debt have been extended to the end of 2021. 6. The government does not include the export insurance guarantee as part of its calculation of COVID liabilities, even though the measure was introduced in response to COVID. The figure reported is the amount of the Fund devoted to the export insurance guarantee as of end 2020: EUR 30.2 billion of the Fund has gained the direct backing of the State in 2020 as the share of these guarantees backed by the State increased from 10% to 90% in 2020.
Source: (Ministero dell'Economia e delle Finanze, 2021[19]); (European Systemic Risk Board, 2021[25]) ; (Banca d'Italia et al., 2021[26])

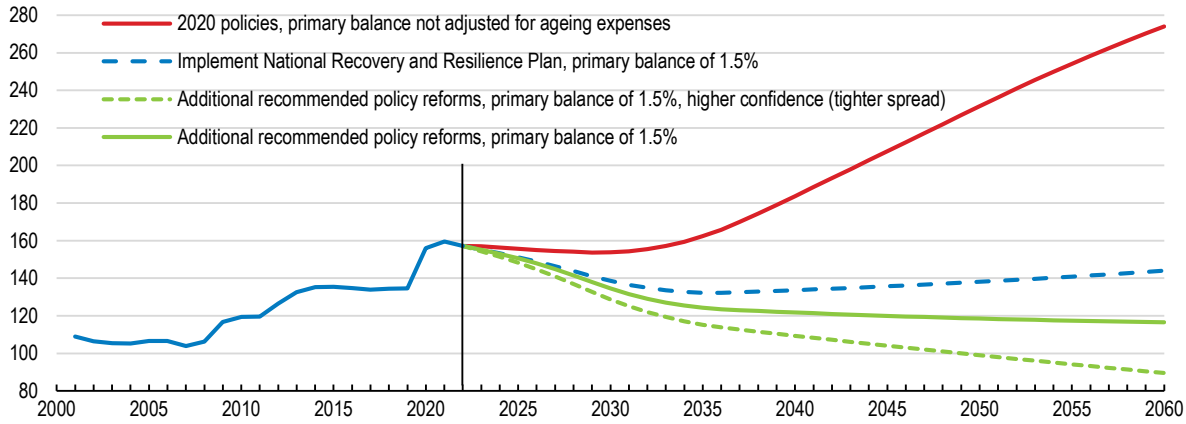
To place public debt ratios on a sustained downward path, Italy will need to grow faster and better allocate public resources and taxation. The reforms embodied in the National Recovery and Resilience Plan will help to raise growth if well implemented. However, even with a primary budget surplus of 1.5% of GDP, this will be insufficient to reduce the public debt-to-GDP ratio over the very long term (Figure 1.13). Signalling a clear, effective and sustainable fiscal framework will be put in place is a key condition to maintain investor confidence. Rebuilding fiscal space will help to absorb future shocks. Medium-term fiscal plans should be developed, even if implementation will be dependent on the pace of recovery. These fiscal plans should recognise the potential risks from higher interest rates or lower growth and set out strategies to address them.

Over the medium term, the fiscal framework must support faster growth whilst meeting the high and rising cost of ageing. Raising already high tax revenues or lowering levels of public investment in education and physical infrastructure would adversely affect economic growth. This will weigh on younger generations

who are now more at risk of poverty than older generations. Reallocating public spending and adjusting the tax mix are thus key priorities. Spending plans should be informed by a succinct set of policy performance indicators and public spending reviews to ensure allocations reflect spending effectiveness in achieving priorities and meeting citizens' needs. These measures are discussed in Chapter 2. Tax reforms should ensure a fair, efficient and progressive tax system. To boost growth, public finance management reform should be complemented with additional structural reforms as discussed below.

### Figure 1.13. Putting public debt on a downward path requires additional structural reforms

Gross public debt, % of GDP




Note: Policy scenarios are described in Table 1.5. In the baseline and recommended policy reform scenarios, the primary budget surplus is assumed to reach 1.5% of GDP from 2029. In the scenario with no adjustment for ageing expenses, the difference in ageing costs between 2020 and the relevant year as projected by the 2021 Ageing Report (European Commission, 2021[24]) are subtracted from the primary balance. Interest rates are assumed to rise to 4.3% by 2037, except in the 'tighter spread scenario where they rise to 3.75% from 2037. Real annual GDP growth is projected to stabilise at 0.5% in the baseline scenario from 2025; in the recommended policy reforms scenario, it is projected to rise to 1.4% by 2030 and then gradually slow to 1.0% by 2060.
Source: Calculations based on several OECD Economics Department Working Papers: (Guillemette and Turner, 2018[27]); (Guillemette et al., 2017[28]); (Cavalleri and Guillemette, 2017[29]) (Guillemette, De Mauro and Turner, 2018[30]); and Eurostat population projection scenarios.

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### Past OECD recommendation to reduce medium-term fiscal risks

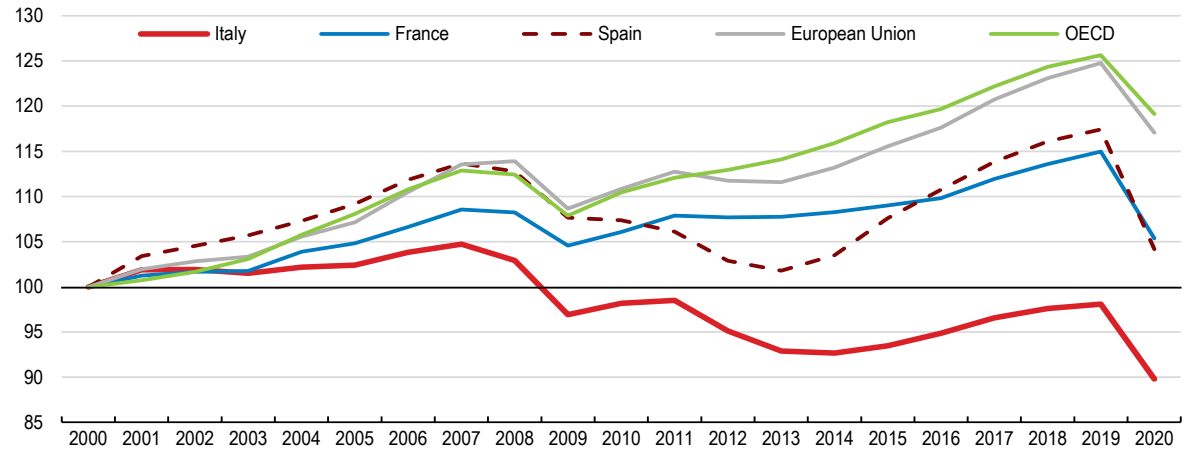
| Past recommendations | Actions taken since 2019 |
|---|---|
| Boost fiscal credibility by setting out a medium-term fiscal plan within the EU Growth and Stability Pact, aiming to steadily raise the primary surplus. Stick to the planned fiscal strategy to bring the debt-to-GDP ratio onto a declining path. | The fiscal strategy has been dominated by the COVID response. The government is correctly focused on raising growth, has committed to return to medium-term fiscal sustainability, and is investigating comprehensive tax reform proposals. |
| Reverse the changes in early retirement rules introduced in 2019 and preserve the link between retirement age and life expectancy. | No change. The Quota 100 system is due to expire in December 2021; retirement age and life expectancy will be re-linked in 2026. |
| Continue to assess the magnitude of budgetary contingent liabilities, including the vulnerability of public finances to risks associated with the financial sector. | Contingent liabilities have risen to EUR 215.5 billion in 2020 (EUR 85 billion in 2019), due to COVID-policy related guarantees on loans. |

## A structural reform package for a sustained, green and inclusive recovery

Italy's per capita income is now below its level 20 years ago while most other OECD countries have seen an increase (Figure 1.14). Investment, productivity and job creation have all lagged behind peers. To overturn decades of low per capita income growth, Italy must implement structural reforms that will boost employment, investment and productivity (Figure 1.15).

## Figure 1.14. Per capita income has stagnated

Real GDP per capita, index 2000 = 100




Source: OECD (2021), National Accounts (database).

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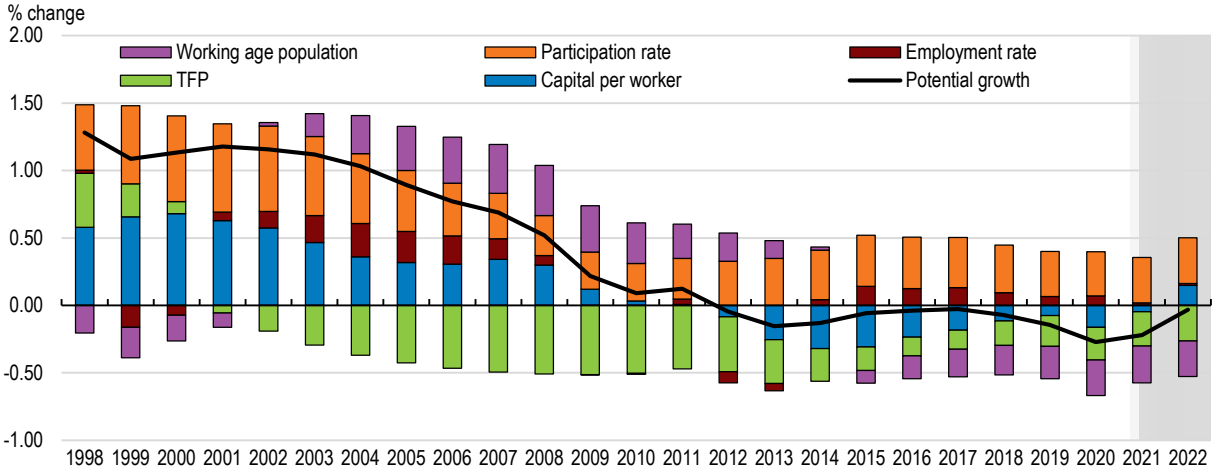
## Figure 1.15. Sluggish investment and productivity have weighed on growth

Breakdown of potential growth




Note: The potential growth decomposition calculates total factor productivity as a residual. Since the calculation of labour inputs does not adjust for working hours, fluctuations in hours worked are reflected in the total factor productivity component.
Source: OECD (2021), OECD Economic Outlook (database).

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### *The National Recovery and Resilience Plan prioritises investment and structural reforms*

The government intends to support growth in the near-term through providing substantial support for households and firms to preserve productive capacity in 2021 and to a lesser extent in 2022. The transition to faster growth post-COVID is primarily cdriven by implementing structural reforms and increased public investment (Box 1.3). Public investment spending, focused on green and digital and technology investments, will remain above 3% of GDP from 2022, up from an average of 2.5% between 2010 and 2020.

## Box 1.3. Spending priorities of the National Recovery and Resilience Plan

The National Recovery and Resilience Plan outlines structural reforms and spending plans of EUR 235 billion to raise Italy's growth. Funding includes EUR 205 billion Next Generation EU funds. Italy intends to utilise the full EUR 68.9 billion in grants and EUR 122.6 billion in loans from the Recovery and Resilience Fund, as well as EUR 13.5 billion in REACT-EU funds. National resources of EUR 30 billion will be held in a complimentary investment fund.

Spending is spread along 6 core priority areas (Table 1.4). Greener energy, transport (in particular high-speed rail) and the efficiency of buildings are prioritised alongside broadening Italy's use of technology including through faster broadband connectivity. New projects account for just over 70% of the total spend. Public investment and research and development make up over EUR 90 billion in new investments, combined with almost EUR 30 billion in new incentives to encourage investment in the private sector (Figure 1.16).

### Table 1.4. Estimated allocations for the National Recovery and Resilience Plan

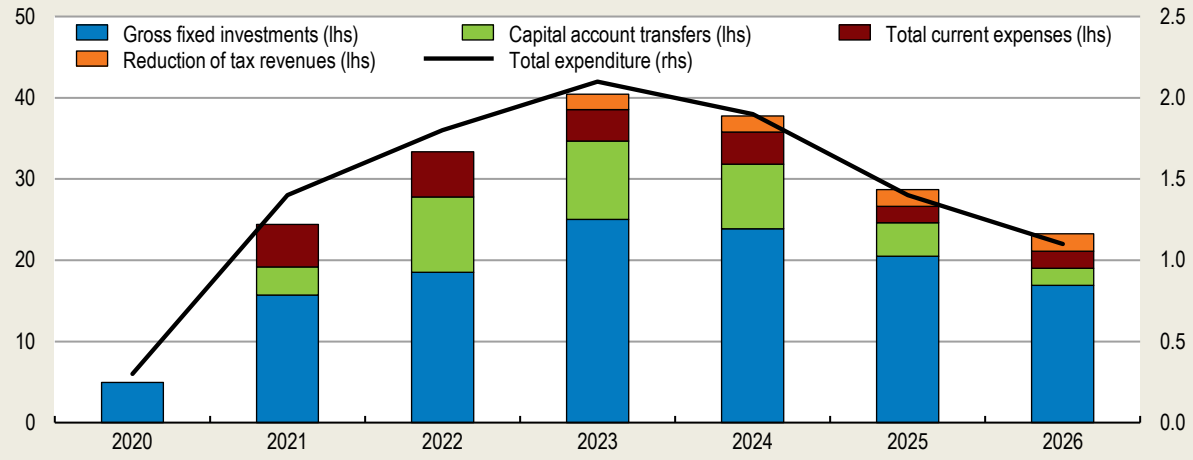
Total amounts to be utilised over 2021 – 2026

| Focal Area | EUR billion[1] | % of total | % of GDP[2] |
|---|---|---|---|
| Green revolution and ecological transition | 69.9 | 29.7 | 4.0 |
| Digitisation, innovation, competitiveness & culture | 49.9 | 21.2 | 2.9 |
| Infrastructure for sustainable mobility | 31.5 | 13.4 | 1.8 |
| Education and research | 33.8 | 14.4 | 1.9 |
| Inclusion and cohesion | 29.8 | 12.7 | 1.7 |
| Health | 20.2 | 8.6 | 1.2 |
| Total | 235.1 | 100.0 | 13.5 |

Note: 1. Includes funds from Next Generation EU (Recovery and Resilience funds and REACT-EU) and the complimentary investment fund, made up of budget and EU Structural Fund allocations. 2. Using forecast 2021 GDP.
Source: (Consiglio dei Ministri, 2021[31]); OECD estimates.

### Figure 1.16. Investment dominates spending plans

Spending type, % of GDP




Note: Only includes the Recovery and Resilience Funds grants and loans.
Source: (Ministero dell'Economia e delle Finanze, 2021[19]) and OECD calculations.

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The Plan uses a number of successful existing incentive programmes to stimulate higher private investment. A number of projects can be deployed rapidly and are likely to raise growth in the near term - in particular, projects to support railways, private investment and R&D tailored to businesses make up a third of total spending. Plans for renewable energy, electric vehicle infrastructure and broadband could quickly crowd in higher private investment beyond the amount directly budgeted if there is clarity about the long-term vision for the market in the respective sectors.

Transversally, spending on the South accounts for about 40% of all investments with a specific geographic focus, although the proportion varies across the different thematic areas. In order to translate into a sustained improvement in regional growth and employment outcomes, it will be necessary for public administration effectiveness to rise. (Papagni et al., 2021[32]) find differing investment outcomes based on the quality of institutions. (Albanese, Blasio and Locatelli, 2021[33]) find that European Reconstruction and Development Fund investments tend to raise total factor productivity growth where institutions are better.

Total direct spending dedicated to women is estimated at EUR 7.5 billion, including the plan's EUR 4.5 billion to expand early childhood care infrastructure and access, which is an obstacle to female labour force participation. Other efforts also seek to raise participation in science, technology, engineering and maths, women's entrepreneurship and a gender equality certification system. Women will also benefit from a temporary hiring incentive for employers.

Source: (Servizio del Bilancio del Senato, 2021[34]) ; (L'Ufficio parlamentare di bilancio (UPB), 2021[35]); (Consiglio dei Ministri, 2021[31]).

The National Recovery and Resilience Plan places a central role for a series of structural reforms, which will be critical to secure long-term growth gains from higher spending. The key themes are to raise the effectiveness of the public administration and reduce regulatory burdens, improve the efficiency of civil justice and foster competition. Some of these reforms have begun (Box 1.4 and Box 2.1). Chances of successful implementation of structural reforms are greater than in the past as clear milestones and targets have been set and are linked to the disbursement of Next Generation EU grants and loans.

The identified areas are all in line with the priorities identified by the OECD (see below). Chapter 2 outlines the priorities for reforming the public administration to improve the implementation of the National Recovery and Resilience Plan. The potential impact of the Plan's structural reforms and investment plans, assuming historic absorption rates, are modelled in Table 1.5, together with a series of already-legislated reforms. These include the introduction of a EUR 100 monthly tax credit for workers, the introduction of legislated bankruptcy reforms and temporary support for disadvantaged workers.

The results highlight that the substantial increases in spending alongside structural reforms envisaged by the National Recovery and Resilience Plan can have an important impact on growth. Permanent increases in public investment in physical capital and education and skills, when accompanied by improvements in spending quality, would complement and reinforce these gains.

This Survey's recommended reforms are intended to deepen the substantial reform programme the government has outlined in the National Recovery and Resilience Plan. Higher absorption rates of investment funds are possible with reforms to public investment processes as described in Chapter 2. Over the longer term, raising the quality of and access to adult learning and early childhood education and care, as well as lowering non-wage labour costs, would ensure that the gains from growth are more evenly spread. Productivity growth can be increased through reducing regulatory burdens and improving competition – particularly in the services sector. (Table 1.5) presents estimates of the impact of a selection of reforms discussed in this Survey on growth and Table 1. the impact on the fiscal balance.

## Box 1.4. Structural reform priorities in the National Recovery and Resilience Plan

The structural reforms agenda addresses some of the most important obstacles to raising Italy's long-term growth potential. A timetable of reforms has been agreed with the European Commission. Since many reforms will take time to implement, the disbursement of Next Generation EU funds is contingent on reaching a series of milestones. The structural reform agenda is ambitious and demanding. Improvements in the public administration's effectiveness will facilitate rapid implementation. The monitoring and accountability mechanisms established will be crucial for successful implementation, alongside a clear, agreed program with the legislature.

**Structural reform priorities**

| Reform area | Core objectives | Selected actions taken or planned |
|---|---|---|
| Reform of public administration | • Improve recruitment, training and performance evaluation of civil servants, including use of more flexible contracts to better match skills with needs<br>• Increase digital tools for public to interface with government<br>• Increase digitisation of procurement systems and undertake necessary training<br>• Simplify and rationalise processes for procurement and environmental impact assessments, investments for telecommunications, renewables and urban regeneration, and those qualifying for incentives in the South, by 2021<br>• Create a digital application process and repository of government procedures, alongside technical support, to streamline processes by 2026<br>• Reform the Independent Assessment Bodies and benchmarking to improve performance incentives | Simplification decree of 2020 passed<br>Pact on the innovation of public employment and social cohesion signed between government and unions in March 2021<br>New rules about hiring procedures and criteria, contracts and career of public employees hired to implement the National Recovery and Resilience Plan in June 2021<br>May decree passed with procurement and investment process reforms for National Recovery and Resilience Plan projects<br>A bill on the South will be presented by 30 September 2021 |
| Reform of civil justice | • Increase the number of staff to deal with backlogs<br>• Improve time management of trials through performance management reforms for magistrates and managers<br>• Increase digital submission of documents and written arguments<br>• Support alternative dispute mechanism with economic and fiscal incentives<br>• Speed up bankruptcy execution with new deadlines and simplified procedures and forms for creditors.<br>• Reducing the tax appeals backlog through increased resources and consolidated tax guidelines | Bill before parliament on legal reform, which will significantly enhance use of digital tools and procedures and management of caseloads<br>A commission will propose amendments to the so-called crisis and insolvency code<br>A commission report on tax appeals was completed 5 July 2021<br>A commission submitted proposals on trials in April 2021 |
| | • Single platform to publish information to control corruption | Enabling bill to be presented to Parliament by September 2021 |
| Greater competition | • Annual competition law review to be implemented<br>• Reform of concessions for key network industries to lower entry barriers and raise competition, in conjunction with more guidelines for when the state uses in-house provision<br>• Increased competition in renewable energy, electric vehicles and increased transparency clarity with respect to public awarding of concessions.<br>• Consolidate competition oversight bodies and simplify and digitise supervisory regime | Annual competition law of 2021 to ensure more competition for concessions at ports and measures to stimulate broadband demand and reduce administrative burdens for installation.<br>Concessions at hydroelectric plants and natural gas distribution, and regulations on electricity grid connections to be implemented by 2022<br>Motorway concessions to be addressed by 2024 |
| Tax[1] | • Collect and rationalise tax code<br>• Better use of data analysis to direct risk based compliance checks and increased use of automated form filling. Fiscal federalism will be considered by Q1 2026. | A comprehensive tax reform proposal will be put forward in the second half of 2021. |

Note: The list of reforms are not exhaustive, but a summary of major reforms the government has outlined. 1. Although tax reform is not officially part of the National Recovery and Resilience Plan it will strengthen the aims and objectives.
Source: (Consiglio dei Ministri, 2021[31]) OECD.

## Box 1.5. The impact of the National Recovery and Resilience Plan and additional structural reforms on growth and fiscal sustainability

The tables below present the growth and fiscal impacts of some key structural reforms proposed in this Survey. These estimates are illustrative. There are high levels of uncertainty in determining the growth impact of reforms. The timing and quality of investment spending will also affect estimates. The government has estimated that depending on the efficiency and quality of investment, the impact on growth can vary between 1.8 and 3.6 percentage points (Consiglio dei Ministri, 2021[31]). The Banca d'Italia estimates that the investments outlined in the National Recovery and Resilience Plan could raise GDP by almost 2.5% in 2024 (Banca d'Italia, 2021[36]), assuming that investments are spent promptly. If the investments are successful at crowding in private investment, the number could rise to 3.5% in 2026. The Banca d'Italia estimates an additional 3 to 6 percentage points of growth could be achieved with structural reforms over a ten-year time horizon. The European Commission estimates that the impact of the investments on growth by 2025 could vary between 1.4% and 2.3% depending on the productivity of the investments (European Commission, 2021[37]).

### Table 1.5. A policy reform package to boost income into the long term

| Scenario | | Policy actions | Cumulative effect on real GDP % | |
|---|---|---|---|---|
| | | | 2025 | 2030 |
| National Recovery and Resilience Plan and other 2021 announced policies<br>*Additional contribution to GDP compared to 2020 policies and projections* | | Structural reforms and spending EUR 235 billion, using Next Generation EU funds, Development and Cohesion Funds and own resources, as well as earmarked fiscal resources for 2021-2026 of over EUR 30 billion to support employment and education<br>i. Implementation of current and planned reforms to bankruptcy processes, court operations, administrative simplification and public administration<br>ii. Higher public investment<br>iii. Higher levels of R&D spending<br>iv. Increased competition in network industries (broadband, ports, electricity, natural gas, toll roads)<br>v. Permanently maintain the EUR 100 monthly tax credit<br>vi. Temporary reduction in employers' social security contributions<br>vii. Active labour market spending doubles to reach the OECD per unemployed by 2030, primarily due to hiring incentives;<br>viii. Increased spending on early childhood and other education facilities to expand access<br>ix. Social welfare spending benefits continue (Citizen's Income and unified child allowance)<br>x. Higher permanent increase in early childhood education and care and other in-kind family support | 2.1 | 5.9 |
| Recommended additional reforms<br>*Additional contribution to GDP compared to National Recovery and Resilience Plan and other announced 2021 policies* | | | 0.3 | 2.9 |
| *Of which:* | Spending reforms to support employment | xi. Further improve absorption rate of public investment funds by broadening institutional changes by consolidating procurement agencies, introducing a maintenance framework and expanding the scope of technical assistance to regions and municipalities<br>xii. Permanent cut in labour income tax wedge for all workers<br>xiii. Improved access to early childhood education and higher quality of services through better information dissemination of facilities' performance<br>xiv. Improved quality of and access to adult education and life-long learning through reforms to Training Funds and increase in active labour market policy spending more oriented towards skills development improve education outcomes<br>xv. Moderate pension reform. | 0.3 | 2.2 |

## Table 1.5. A policy reform package to boost income into the long term (continued)

| Scenario | | Policy actions | | Cumulative effect on real GDP % | |
|---|---|---|---|---|---|
| | | | | 2025 | 2030 |
| Of which: | Investment climate reforms | xvi. | Improve effectiveness of public administration more clarity on roles of different layers of government beyond the National Recovery and Resilience Plan and the dissemination of best practice, as well as measures to improve the accountability of elected officials and magistrates | 0 | 0.7 |
| | | xvii. | Increase competition in services sectors, including reform regulation of professional services and retail trade | | |
| | | xviii. | Undertake regulatory reviews for priority sectors | | |

Note 1: The projections for the National Recovery and Resilience Plan assume that i) improvement in functioning of civil justice and public administration allow the perceptions of rule of law to return to the level of 2004 from 2025; ii) that new planned investment spending accelerates over time, consistent with historic grant spending patterns, with recent governance innovations allowing a faster-than-historic increase in absorption so that by 2026 is equivalent to Italy's 2014 absorption rate of the 2007-2013 European structural support programme (63% by 2026), before returning to an annual level 0.15% points above the level sufficient to maintain the existing public capital stock from 2029; iii) R&D spend rises to 2.0% GDP by 2030; iv) increased competition in network industries supports a 10% reduction in the electricity, communications and transport index by 2025; v) the EUR 100 monthly tax credit remains in place permanently; vi) employers' social security rebate for women, younger workers and workers in the south are phased out completely by 2030; vii) that active labour market spending doubles to reach the OECD average per unemployed by 2030, primarily due to hiring incentives; viii) that the roll-out of the Citizen's Income guaranteed minimum income and other announced tax and benefit measures (such as the unified child allowance) lower the Gini coefficient on income inequality from 35.9 to 35.1; ix) that increases in early childhood education and care and other in-kind family support permanently raise spending to the OECD average of 0.9% of GDP by 2025; and x) that the early retirement scheme (Quota 100) expires after 2021 and retirement ages are re-linked to life expectancy in 2026. The direct impact of incentives on private investment was not modelled, but is in part captured through estimates of higher R&D spending and lower network competition.
Note 2: Policy scenarios presented in the table correspond to: xi) Improve the use of Next Generation EU funds to equal the top 3 spenders of historic EU funds (93% by 2026); xii) permanently reduce the tax wedge for all workers equivalent to 0.9% of GDP; xiii) improvements to access in early childhood education and higher spending on early childhood education and care and other in-kind family support to the top 25% of OECD spending countries (1.12% of GDP by 2030); xiv) active labour market spending rises to the third decile of OECD countries by 2030, focused on training, and with quality improvements to Training Funds raises average years of schooling by 0.3 by 2060 relative to the baseline; xv) allow retirement age with life expectancy from 2023; xvi) rule of law index rises to the levels of 2000 from 2030; xvii) and xviii) combined impact equivalent to reducing the product market regulation index by 0.15 by 2025;.
Source: Calculations based on several OECD Economics Department Working Papers: (Guillemette and Turner, 2021[38]); (Guillemette et al., 2017[28]); (Cavalleri and Guillemette, 2017[29]); (Guillemette, De Mauro and Turner, 2018[30]); and Eurostat population projection scenarios

## Table Fiscal impact of selected proposed reforms

Fiscal impact (savings (+)/ costs (-)), % of GDP

| | Measures undertaken | % GDP |
|---|---|---|
| i. | Increase tax compliance and lower tax expenditures | 2.1 |
| ii. | Reduce tax wedge by extending reduction in social security contributions to all workers | -0.9 |
| iii. | Increase access to adult skills attainment, with improved Training Fund application processes and better coordinated public employment services and raise active labour market policy spending | -0.8 |
| iv. | Improve access to quality early childhood education and care across all regions and then raise spending) | -0.5 |
| | Direct impact of suggested reforms on government spending | -0.2 |
| | Revenue gain from higher growth following recommended reform package | 0.5 |
| | Overall budget impact of specific measures of recommended reform package | 0.3 |

Note: i) VAT gap drops to 10% of GDP (close to EU average of 9.6% in 2019) and self-employed tax gap drops to 35%; ii) Extension of social security contribution reduction extended to all workers from current projected annual expenditure of EUR 4.3 billion on workers in the South, which makes up 24% of total employment; iii) ALMP increase would entail active labour market spending rising three times from 2018 levels (0.42% GDP); and iv) In-kind family benefits rise from 0.65% to 1.12% GDP.
Source: OECD calculations.

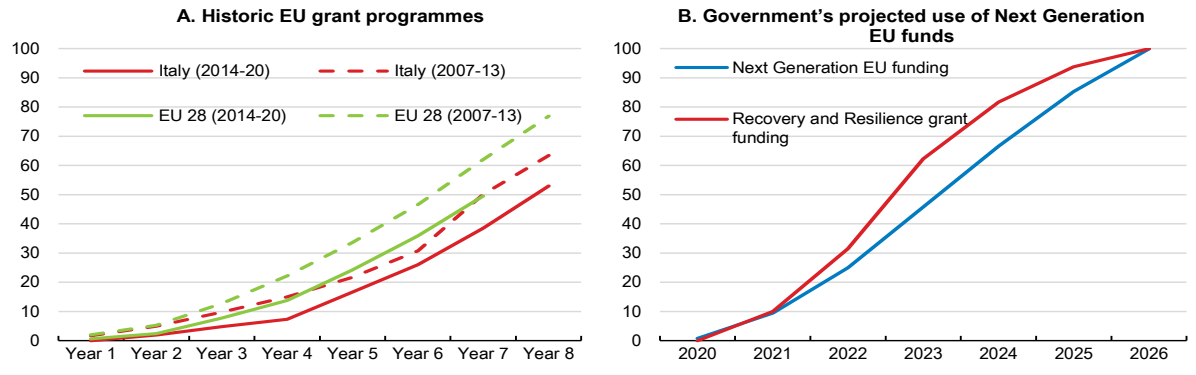
### *Supporting more effective public investment spending*

Italy plans to disburse the Recovery and Resilience funds more swiftly and effectively than it has disbursed its European investment budgets in the past (Figure 1.17). Stakeholders have highlighted governance, administrative capacity and procedures as core elements in slowing down past disbursement rates. (Crescenzi, Giua and Sonzogno, 2021[39]) find that past EU projects structured similarly to Next Generation EU funds are spent in a timely fashion if there is a strong role for the national government, wide consultation with local stakeholders (beyond regional and local authorities) and limited intermediate governance layers. Italy has undertaken a number of innovations to improve disbursement rates. Centralised monitoring of progress in implementing investments and structural reforms, and a separate team to monitor financial compliance, will improve accountability. Simplified procedures, tighter deadlines for government authorisations and deadlock breaking mechanisms in the event of non-performance have been legislated. This also includes intervening in local authorities' powers in certain circumstances, such as delayed project implementation. Procurement processes have been adjusted, including consolidating all required authorisations and opinions into a single feasibility document, and restricting which bodies can issue tenders for investments linked to the National Plan. This could lead to improved project planning, prioritisation and implementation (Chapter 2).

Nonetheless, addressing the underlying constraints to public investments would reduce Italy's need to turn to exceptional arrangements such as special commissioners to implement urgent or high-profile projects. Delays in starting projects could be reduced further by consolidating procurement into regional and central governments' specialised procurement agencies (Chapter 2). These have deeper capacity, are better able to prepare and cost projects, have experience in assessing procurement against broad economic effectiveness and other policy criteria, and are better able to manage disputes with tenderers. Better coordinating and collaborating across the different government agencies involved in investment projects would smooth implementation and help navigate differences in capacity. If it were to be fully developed and resourced, Investitalia – the new agency that helps different government bodies prepare public investment projects, obtain approvals and implement projects – may be a model that merits expanding. Ensuring sufficient funding for ongoing maintenance would help avoid further cases of assets degrading to the point where they require costly emergency reconstruction. Other suggestions to strengthen the Plan include efforts to improve public administration efficiencies, digitisation and green energy, as discussed below.

## Figure 1.17. There is room to improve utilisation of EU investment funds

Cumulative spending (disbursement) as a percentage of allocated funds




Note: 2007-2013 includes grants for Cohesion Fund, European Regional Development Fund and European Social Fund programmes; 2014 – 2020 includes Cohesion Fund and European Regional Development Fund programmes.
Source: (Darvas, 2020[40]); (L'Ufficio parlamentare di bilancio (UPB), 2021[35]); (Ministero dell'Economia e delle Finanze, 2021[19])

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## Past OECD recommendations on public investment policy

| Past recommendations | Actions taken since 2019 |
|---|---|
| **Develop a comprehensive public investment and spatial plan linking infrastructure developments with land use management** | The National Recovery and Resilience Plan has built on the previous infrastructure plan released by government. Land use management has not been integrated into the plan. |
| **Create, as planned, a technical support unit for public investment using existing administrative structures and ensure it is well staffed**. Strengthen the coordinating role of the central government to set and enforce minimum standards in project preparation and execution and to enhance the administrative capacity of all agencies using national and European funds for investment. | The government has introduced special commissioners as well as centralising the focus of the Next Generation EU within the Ministry of Finance.<br>The recently established agency Investitalia has started supporting sub-national governments' investment. |
| **Promote greater use of centralised procurement, cost information systems and benchmarking.** | Reforms to procurement in 2019-2020 have not included actions to encourage greater use of centralised procurement. Certain measures reduced the availability of cost information or of benchmarking. |
| **Simplify the most complex aspects of the public procurement code but protect the powers of the anticorruption authority.** | In 2019, procurement was re-codified, including the instructions and guidelines prepared by the anti-corruption authority. The requirement to award tenders above a prescribed value to the 'most economically advantageous' bid became an optional alternative to awarding to the lowest cost bidder. The 2020 Simplification Decree eased public procurement procedures, including raising thresholds for competitive bids and accelerating processes, allowing greater use of direct award or negotiated procedures for purchases in priority areas. |
| Re-assign and clarify competences between the central and sub-national governments. Rationalise and improve coordination in regional development policies by strengthening the role and expertise of central government bodies | No significant progress. |

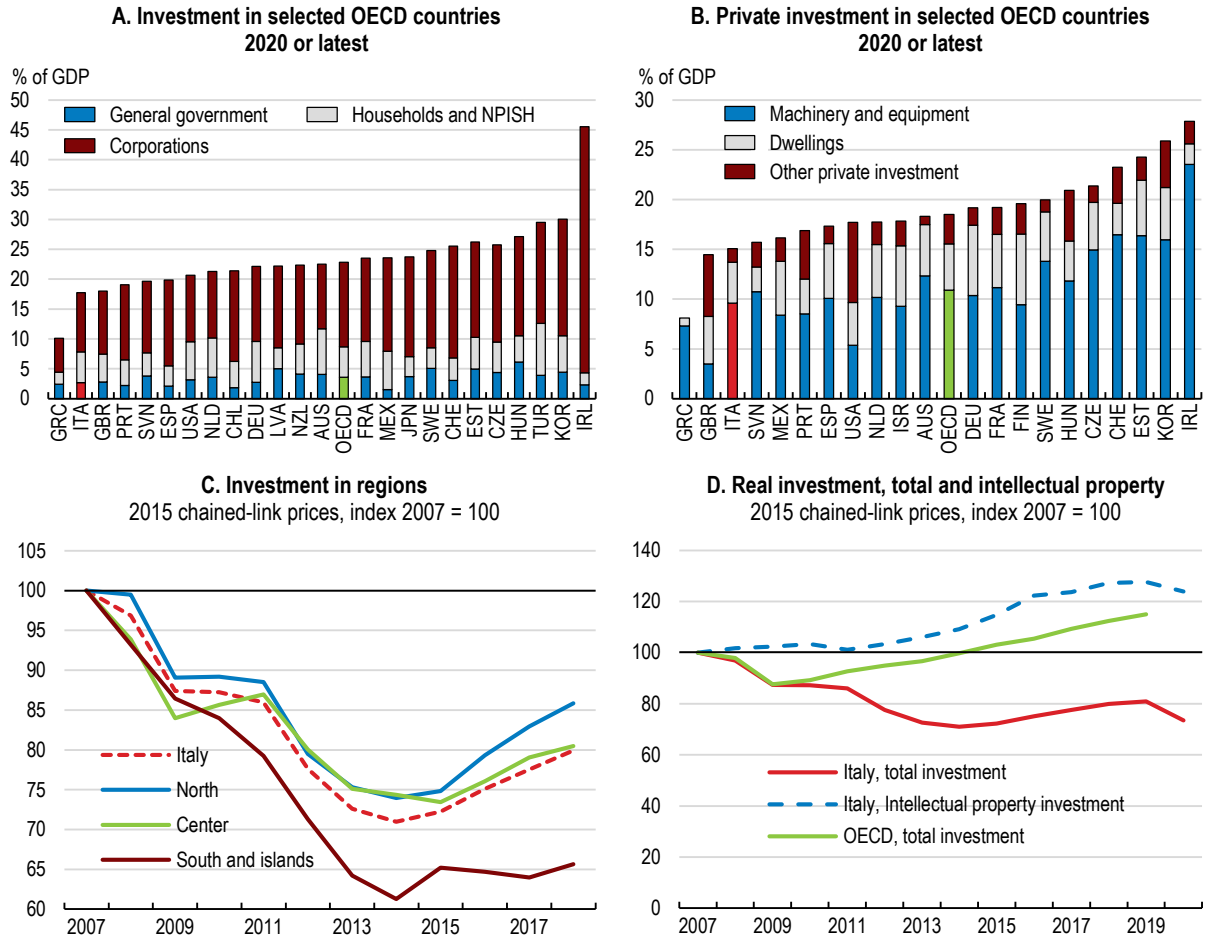
### *Efforts to raise private investment must reach the services sector*

Business investment in Italy is much lower than in OECD peers (Figure 1.18). The global financial crisis and the sovereign debt crisis both lowered investment. The recovery has been slow due to weak demand, low profitability and firms' difficulties in accessing finance; high taxes and burdensome regulations also played a role (Briguglio et al., 2019[41]). Services firms, which are more numerous in the South, account for 71% of total investment, but their recovery was much slower than manufacturers' (Figure 1.19).

To promote business investment, the government instated a generous set of incentive schemes under the banner Impresa 4.0 and most recently Transizione 4.0, to offset the high regulatory burdens and levels of uncertainty faced by firms. Investment in assets favoured by the incentives, such as R&D and computer software, have grown very quickly (Figure 1.19). The incentives have worked particularly well in supporting investment in manufacturing firms (Ciapanna, Mocetti and Notarpietro, 2020[42]); (Briguglio et al., 2019[41]); (Bratta, Romano and Acciari, 2020[43]); (ISTAT, 2018[44]).

The incentives do not reach all firms, and take-up by the service sector, where productivity and investment lag, has been low. The already large productivity gaps between firms that invest and those that do not risk widening further following the pandemic (OECD, 2021[45]). The impact of competence centres, established to assist firms to train, plan and execute investments, must be assessed. A dedicated focus on services sectors may be required. In an effort to better target SMEs, the government has limited access to the incentives to smaller firms by limiting claims as well as the size of potential investments. The impact of this shift should be monitored, as it could have unintended consequences – excluding larger investments may lower the aggregate investment rate (Zangari, 2020[46]). In addition, it may create incentives to stay small for firms that take up the incentive.

## Figure 1.18. Investment has recovered slowly from the global financial crisis and lags peers




Note: Panels A and B: OECD unweighted average is computed using the available OECD countries. For Estonia, Hungary, Italy and Slovenia, private investment is the difference between total investment and government gross fixed capital formation. Panel D: Public services, education and health refer to public administration and defence, compulsory social security, education, human health and social work activities. Numbers in bracket show the 2018 share of the sector in total investment for the region.
Source: OECD National Accounts Statistics database; and OECD Economic Outlook database; and ISTAT.

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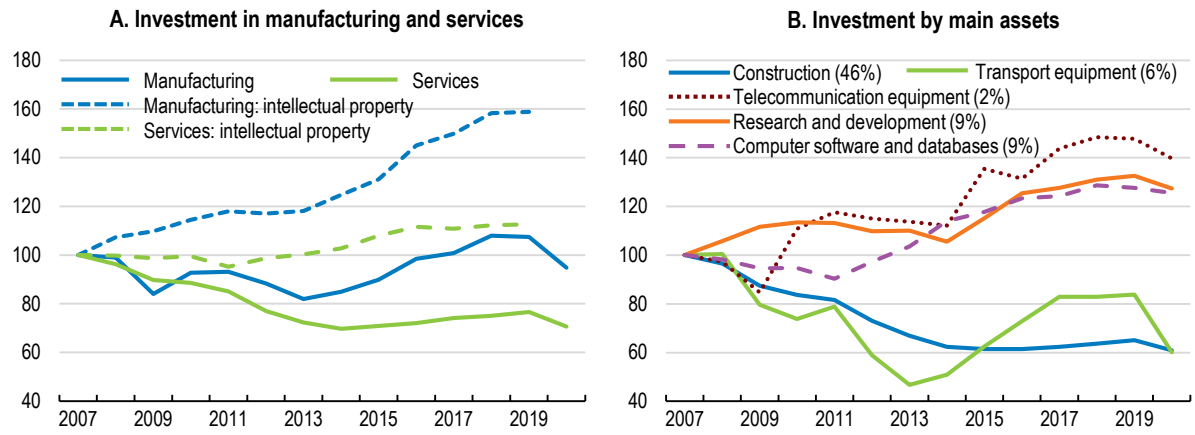
## Figure 1.19. Investments rose fastest in manufacturing sectors and intellectual property assets

Real investment, 2015 chain-linked prices, indices, 2007 = 100




Note: Panel B: The percentages in brackets indicate the share of each assets in 2020.
Source: ISTAT and OECD calculations.

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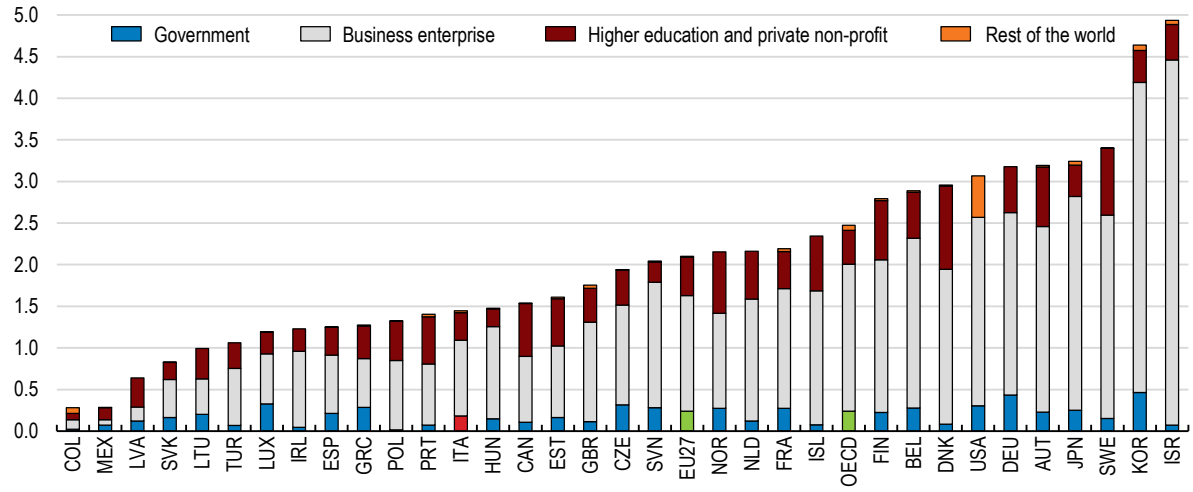
Italy's total research and development spending (1.4% GDP) lags peers, particularly in government and higher education institutions (Figure 1.20). Increasing budget allocations to basic research, channelled through universities, would raise long-term innovation. The National Recovery and Resilience Plan importantly raises support for research and development, with EUR 9.4 billion spending on new initiatives, including direct public grants for R&D, technology transfer and innovation, and green innovation. Existing innovation hubs, which increase the links between business and universities, could amplify the impact of this spending.

Progress in improving the business climate remains slow. Key issues include: the number of permits required to undertake an investment; the lack of clarity about the different regulatory processes in different regions; and overlapping mandates and approval processes from different regional entities. The government plans to collate all regulatory requirements for EU funded investments into one place. A better business environment would reduce the need to rely on financial incentives to support investment.

## Figure 1.20. R&D spending is particularly low by the government and higher education institutions

Gross domestic expenditure on research and development, 2019, % of GDP




Note: Due to data unavailability, the OECD average excludes Australia, Chile, Costa Rica, New Zealand and Switzerland.
Source: OECD (2021), Main Science and Technology Indicators (database) http://oe.cd/msti.

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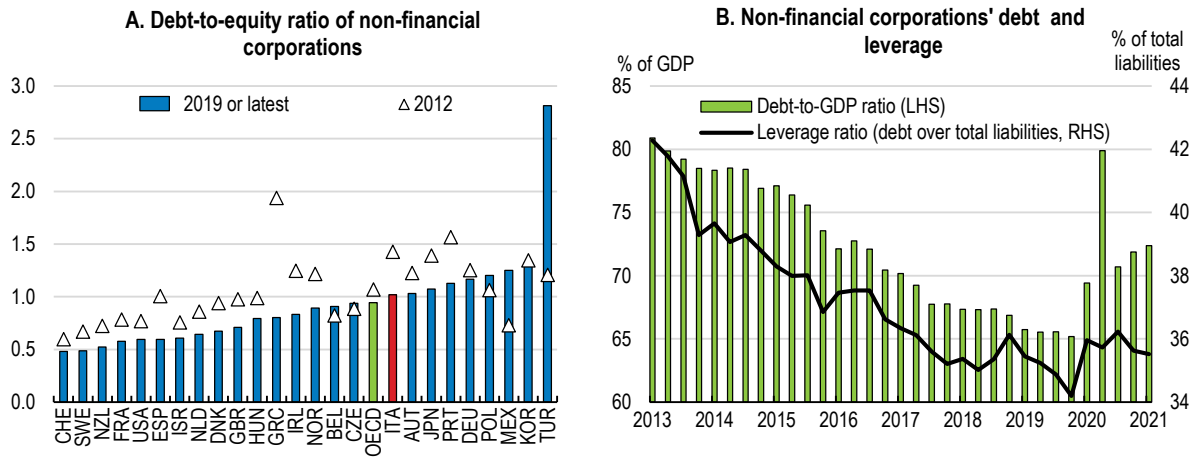
### *Improving access to equity financing could boost business investment*

Italy's firms tend to rely heavily on bank loans rather than equity as a source of finance. A strong negative relationship between leverage and investment exists in Italy as elsewhere (Briguglio et al., 2019[41]). The bias for debt over equity financing is likely to impede innovative, fast-growing firms, because these firms may invest more heavily in intangible property which makes them more reliant on equity financing (Andrews, Adalet McGowan and Millot, 2017[47]). The government has taken a number of steps to encourage the development of non-bank channels of finance, both equity and debt (Box 1.6). Leverage has fallen since the sovereign debt crisis (Figure 1.21) due to lower levels of debt - the debt bias remains (OECD, 2020[48]).

Removing or reducing tax-related incentives for debt financing could foster increased productivity diffusion. Italy's tax allowance for corporate equity (ACE) was considered by many to be international best practice in supporting firms' use of equity (Box 1.7). The current regime is much less generous than previously, which has helped to contain its fiscal cost but also probably reduced its impact. In 2021, the government temporarily increased the scheme's generosity to accelerate de-leveraging following the COVID-19 crisis, particularly among smaller firms. Stabilising the ACE regime would improve investors' certainty in the costs of different sources of finance, which may improve the scheme's support for deleveraging and investment. To better target The ACE and reduce its fiscal costs, a notional rate for firms that face higher barriers to accessing equity finance (e.g. smaller firms) could be raised (Zangari, 2020[46]).

## Figure 1.21. Non-financial corporates have reduced leverage but are still vulnerable




Note: Panel A: Due to data unavailability, the unweighted OECD average excludes Costa Rica.
Source: OECD (2021), National Accounts: Financial Indicators (database) and ECB.

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### Box 1.6. Developing non-bank financing channels

Italy has introduced several incentives to promote the use of market-based financing, with a particular emphasis on improving access for SMEs. These include:

- ***Supporting equity listings, including for SMEs***. Less onerous equity market listing requirements were encouraged through the Alternative Investment Market (AIM Italia), initially established in 2009. The bourse has now more listings than the main bourse. Elite was introduced as a platform to facilitate private fundraising placement. From 2018, firms are incentivised to list on a stock exchange with a tax credit equal to 50% of their advisory costs.
- ***Increasing access to corporate bond financing***. The mini-bond market framework established in 2012 provides a simplified process where unlisted companies (other than micro enterprises and banks) can issue bonds with less stringent disclosure requirements, within certain issuance limits. These bonds can only be bought by qualified investors. They can also be securitised, potentially increasing their appeal to institutional investors.
- ***Incentivising investments in venture capital funds and in SMEs***. Government-supported venture capital funds include Italia Venture I, II and III to incentivise investment in SMEs, the South and larger corporates respectively. The *piani individuali di risparmio* (PIR) introduced in 2017 exempts investors in SMEs from capital gains and inheritance taxes if funds remain in the PIR for at least 5 years. 2019 amendments, which raised risks and lowered liquidity, were subsequently over-taken by reforms to broaden the scope of investments (including bond issuances) and doubled the maximum annual investment to EUR 300 000. A five year tax credit for losses is available for investments undertaken in 2021.

Source: (OECD, 2020[48])

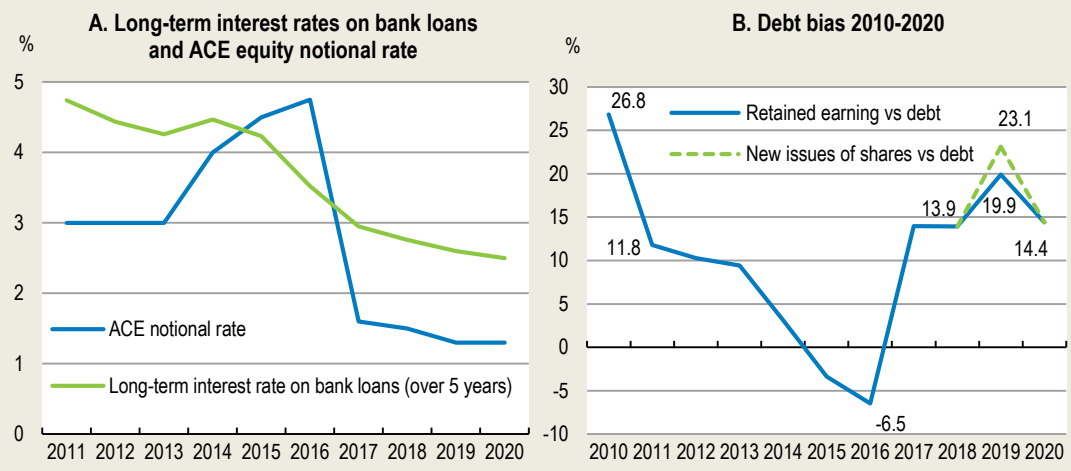
## Box 1.7. Italy's experience with the tax allowance for corporate equity (ACE)

An Allowance for Corporate Equity reduces the tax bias favouring debt over equity by introducing tax deductions based on a company's equity, at a policy-determined notional interest rate. By reducing leverage, it can potentially increase investment. The instrument complements efforts to raise the availability of equity capital and may help overcome a potential aversion from firm owners to using equity in light of the potential loss of control.

Italy introduced an allowance for corporate equity in 2011 ("*Aiuto alla Crescita Economica*" - ACE). The deduction only applied to new equity accumulated from 2011, which limited initial costs. The regime underwent a number of iterations: its generosity was increased substantially with the notional rate peaking at 4.75% in 2016. The cost of the scheme rose as generosity increased and the cumulative amount of equity subject to the ACE grew. In 2017, the notional rate was reduced to 1.6% and its application was limited to certain investments. The ACE was then repealed in 2019, to be replaced with deductions on regional tax rates. It was reintroduced in 2020 given the difficulties in implementing the replacement regime. The notional rate currently stands at 1.3%.

Studies of the efficacy of the ACE in Italy show that it helped correct the debt bias. (Branzoli and Caiumi, 2020[49]) estimate that it reduced the leverage ratio by around 9 percentage points in solvent manufacturing firms with a leverage ratio of around 50%, with effects largest for smaller and older firms. Since then, a steady reduction in the notional rate has likely reduced its impact on corporate leverage. (Zangari, 2020[46]) estimates the reduced generosity increased the cost of capital by 1.4 percentage points between 2016 and 2018, and by even more for firms facing structurally higher financing costs. Nonetheless, it still helps to correct the debt bias (Figure 1.22). Substantial policy uncertainty on the structure and rate of ACE may reduce its future impact on investment.

### Figure 1.22. The generosity of ACE reduces the debt bias




Note: The debt bias is reduced within a forward-looking framework for effective tax rates. The debt bias is defined as the difference between the effective marginal tax rate (EMTR) for an investment funded with equity (retained earnings or new issues of shares) and the EMTR for an investment funded with debt. The debt bias for 2019 is computed assuming the temporary abrogation of ACE and a Mini-Ires regime with a rate cut of 1.5%. The EMTRs are computed from the average cost of capital across assets with tax depreciation rates (assumed equal to the economic depreciation rates) equal to 0%, 5%, 10%, 20% and 30%. β = 0.98. No super-depreciation (2016-2019) and tax credit in 2020. For the other assumptions and tax parameters, see par. 6.1 and table 2 of the working paper.
Source: (Zangari, 2020[46])

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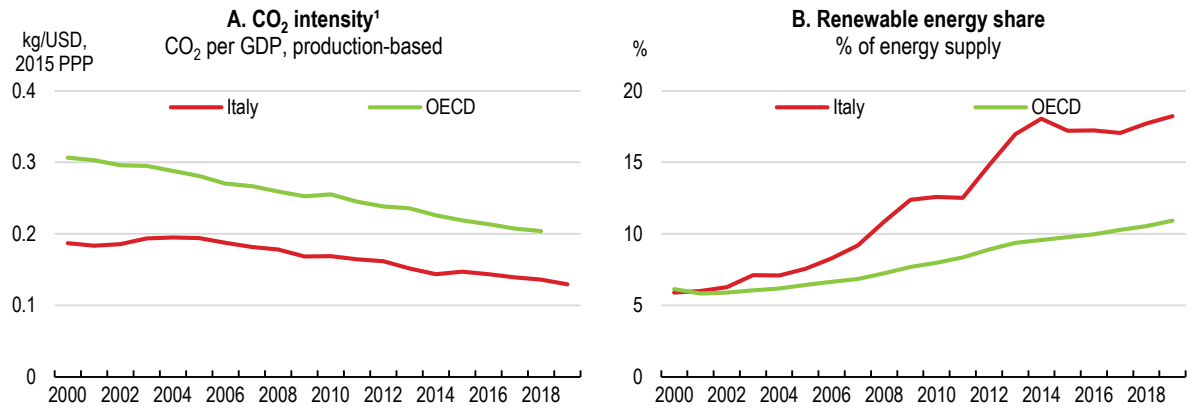
### *The green transition requires credible, long term commitments to carbon pricing*

Italy performs relatively well compared with other EU and OECD countries in its progress towards reducing carbon emissions, its high share of renewables in energy (Figure 1.23) and high recycling rates (European Environment Agency, 2019[50]). In March 2021, the country issued its first Green Bond for EUR 8.5 billion, becoming the fifth largest issuer in Europe (Banca d'Italia, 2021[12]). Electricity, heating and transport remain the major sources of greenhouse gas emissions (Figure 1.24). Oil and coal reliance have been steadily substituted for biodiesel and natural gas, reducing overall emissions. Nonetheless, oil and coal constitute almost 40% of total energy supply. The country has one of the highest shares of passenger vehicles per inhabitant in Europe (European Automobile Manufacturers' Association, 2021[51]) but just over 0.1% of the stock is in electric vehicles (Anfia, 2020[52]). Over 60% of the country's building stock is over 45 years old, and highly energy inefficient.

Although Italy's carbon tax rates are higher than many peers (Figure 1.25), it lags the best performers. In addition, carbon pricing is uneven: industrial consumers pay less than households; and diesel is taxed less than petrol, despite its higher health costs (Figure 1.25) (OECD, 2019[53]); (G20 peer review teams, 2019[54]). For example, the effective carbon price for petrol in road transport exceed EUR 300 per tonne of CO2, whilst the effective carbon price on natural gas for commercial users is below EUR 8 per tonne of CO2. This means commercial users face few incentives to reduce emissions and are likely to forego abatement opportunities, even if their abatement costs are considerably less than the EUR 300 per tonne of CO2 price of carbon in road transport Current energy use, as well as geographic factors, result in elevated exposure to particulates (Figure 1.25), especially in the North.

## Figure 1.23. Italy has progressed in reducing carbon emissions




1. Includes CO2 emissions from combustion of coal, oil, natural gas and other fuels. Gross domestic product (GDP) expressed at constant USD using purchasing power parity.
Source: OECD (2021), Green Growth Indicators (database).

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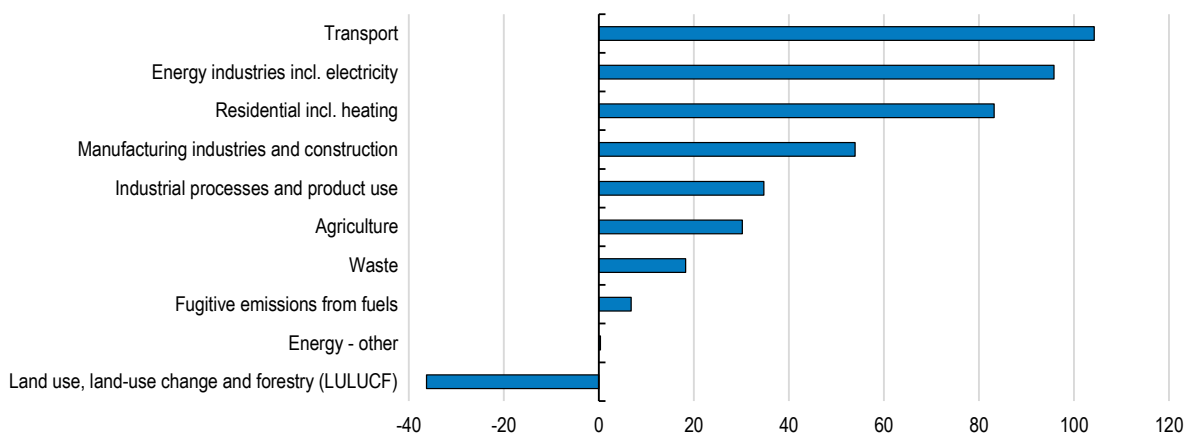
The government has responded to the EU's new target to reduce emissions by 55% by 2030 by targeting the main sources of greenhouse gas emissions in its National Recovery and Resilience Plan.

- ***Raising renewable energy capacity***, including wind, green hydrogen and biomass, as well as recently legislated reforms to reduce regulatory obstacles to faster renewable investment. The Ministry has announced the country will install an additional 65-70 GW of renewable energy over the next decade, raising the targets set out in the 2019 Integrated National Plan for Energy and Climate. Electricity storage capacity and interconnections are also forecast to rise to support increased renewable energy generation.

- ***Tackling transport emissions***. High-speed rail investments are substantial, at almost EUR 24 billion. Electric vehicle subsidies are augmented by introducing EUR 0.74 billion support for charging stations infrastructure. This more holistic approach would benefit from encouraging closer, city-based collaboration on regulation, as done in Norway and Austria, as well as with energy providers, such as in Stockholm, Sweden, to reduce the costs of providing charging infrastructure and meet the capacity of local grids (Hall and Lutsey, 2020[55]). The impact on behaviour could be strengthened if, at the local level, investment plans for electric vehicles, high-speed rail and incentives to support alternative transport are coordinated. Toll pricing strategies should also be considered. Together, these could help mitigate the impact of air pollution in some of the most crowded cities.
- ***Improving building energy efficiency.*** Incentives of EUR 18.5 billion have been introduced, including EUR 4.6 billion in spending by the Complimentary Fund. This is accompanied by legislated reforms to make building renovation approvals faster and simpler than in the past. These could be more explicitly linked with efforts to reduce reliance on domestic diesel heating systems, which are responsible for up to 40% of PM10 emissions in the most affected regions. This would help address the very high levels of particulate emissions Italians are exposed to, and which drives the elevated levels of premature deaths due to air pollution (G20, 2019).
- ***Supporting the circular economy***. Italy has one of the highest recycling rates in Europe, supported by effective regulations such as the four stream waste collection system, the ban on micro plastics and the financial levy paid by plastic packagers (Ghisellini and Ulgiati, 2020[56]); (WWF, 2019[57]). There are, however, stark divergences between top and poor performing municipalities across Italy, as illustrated by the large gap in separate collection rates between Veneto (73.7%) and Sicily (21.7%) in 2017 (Cialani and Mortazavi, 2020[58]). The National Recovery and Resilience Plan allocates EUR 5.3 billion to support the circular economy, of which EUR 2.1 billion is focused on supporting improved waste management, with a particular focus on infrastructure. This is in line with past Survey recommendations. A focus on infrastructure could help municipalities take advantage of the increasing returns to scale in waste management (Cialani and Mortazavi, 2020[58]).

## Figure 1.24. Transport, electricity and domestic heating are the main sources of greenhouse gas emissions

Greenhouse gas emissions by source, 2018, million tonnes of $CO_2$ equivalent




Note: Energy industries primarily refers to greenhouse gas emissions from power plants for electricity. Residential and other uses captures primarily the impact of domestic heating in greenhouse gas emissions.
Source: OECD (2021), Greenhouse gas emissions, Environment (database).

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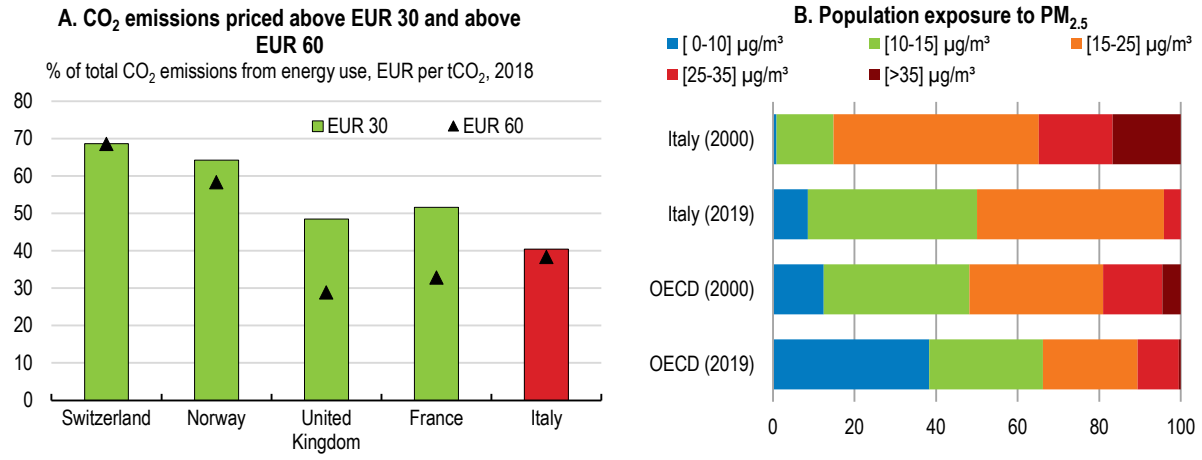
## Figure 1.25. Carbon pricing is not yet widely applied and exposure to particulate emissions remains high




Source: OECD (2021), Effective Carbon Rates 2021 (forthcoming); OECD (2021), Exposure to air pollution, OECD Environment Statistics (database).

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At a national level, a clear, time-bound carbon price target would signal the need for behaviour change whilst providing time for households and firms to adapt. Germany has provided a carbon price path from EUR 25 per tonne to EUR 55-65 per tonne between 2021 and 2026 for those sectors not covered by the European Union's Emission Trading System (EU ETS). The Netherlands has imposed a floor price for the EU ETS price that rises steadily from EUR 30 per tonne to EUR 125-150 per tonne between 2021 to 2030 (OECD, 2020[59]). Setting regulations, standards and norms and clearly communicating them will raise certainty and reinforce behaviour change.

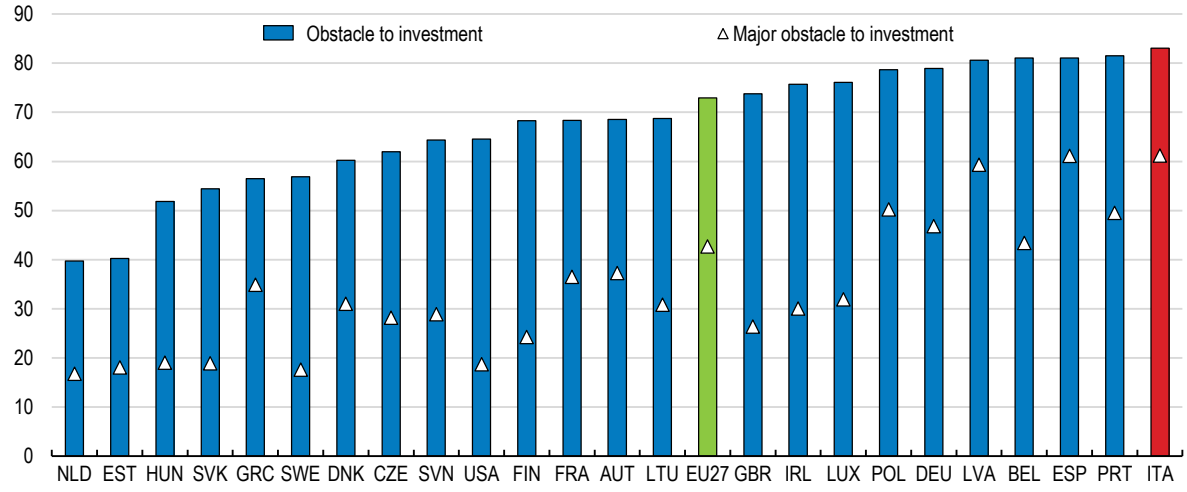
To be credible over the long-term, the transition to a higher carbon price must explicitly manage the associated distributional and competitiveness costs. This could help reduce the very high levels of uncertainty that inhibit climate-mitigating investment (Figure 1.26). A higher carbon tax would likely reduce demand for carbon and raise revenue, but also affect the poorest households most (Faiella and Lavecchia, 2021[60]). These households would need to be compensated.

- Sweden explicitly announced in advance that subsidies and taxes would be gradually adjusted over time to reflect a higher carbon price, but coupled this with explicit transfers to benefit lower income households in particular. The green tax increases of 2001 to 2006 were matched with cuts in income taxes focused on low-income households, and the increases of 2007 to 2013 were matched with sharp reductions in labour taxes (Ministry of Finance, 2018[61]).
- In Switzerland, to compensate for the introduction of a carbon tax on heating fuels, two thirds of the revenue from the tax were earmarked to reduced labour taxes, and one third to energy efficiency and retrofitting investments (Office fédéral de l'environnement (Suisse), 2020[62]).

A revenue neutral switch to carbon taxes in the medium term could be considered. Firms currently receiving fuel subsidies could continue to receive the same amount of support – but decoupled from their use of carbon-intensive technologies. The subsidies could then be gradually phased out over time. The newly formed Ministry for Ecological Transition, which is similar to ministries in place in France, Spain and Switzerland, could coordinate such a strategy.

## Figure 1.26. Uncertainty about regulations and taxes is a major obstacle to green investment

2019, % of all firms




Note: Share of firms citing uncertainty about the regulatory environment and taxation as an obstacle to investing in activities to tackle the impacts of weather events and emissions reduction.
Source: European Investment Bank (2020), EIB investment survey.

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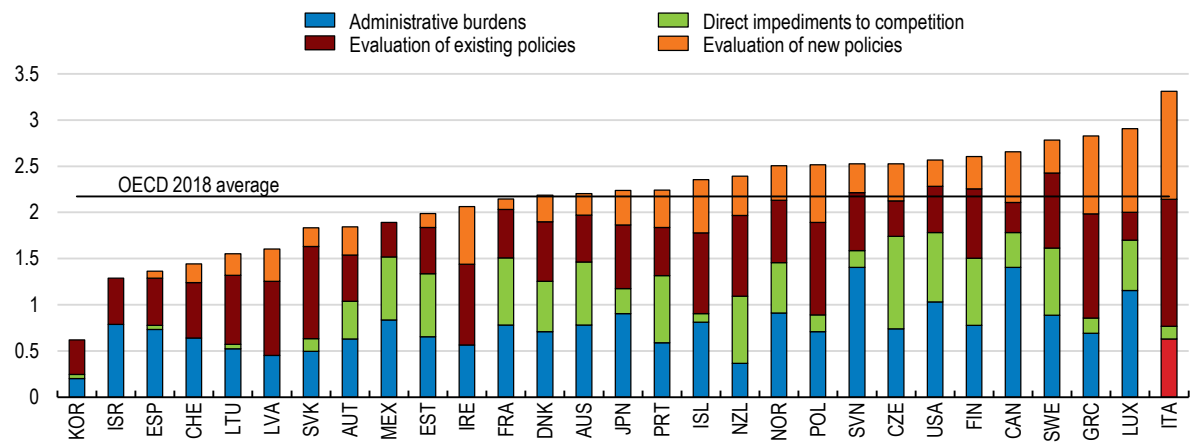
Sustained behaviour change also requires supportive regulations, standards and norms. Technology and performance standards or bans on certain products are necessary to complement carbon pricing. It is critical, however, that these regulations are designed without increasing the overall regulatory burden facing firms (Berestycki and Dechezleprêtre, 2020[63]). Italy's current environmental regulations impose relatively high burdens (Figure 1.27). Recent reforms as outlined above are a step in the right direction to streamline and improve environmental regulations.

## Figure 1.27. Regulations can be better designed to achieve objectives

Design and evaluation of environmental policies, index scale from 0 to 6, from lowest to highest environmental strigency, 2018




Source: (Berestycki and Dechezleprêtre, 2020[63]).

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## Past OECD recommendations on climate change

| Past recommendations | Actions taken since 2019 |
|---|---|
| Make taxation more environmentally friendly by reducing the gap between duties on diesel and petrol. | No progress |
| Shift the tax burden from electricity to the energy products used to generate it, with the respective rates set to reflect the carbon emissions and other pollutants associated with each fuel | No progress, although authorities have committed to consider the carbon pricing and environmentally harmful subsidies regimes will be considered in the context of general tax reform and the European legislative framework. |

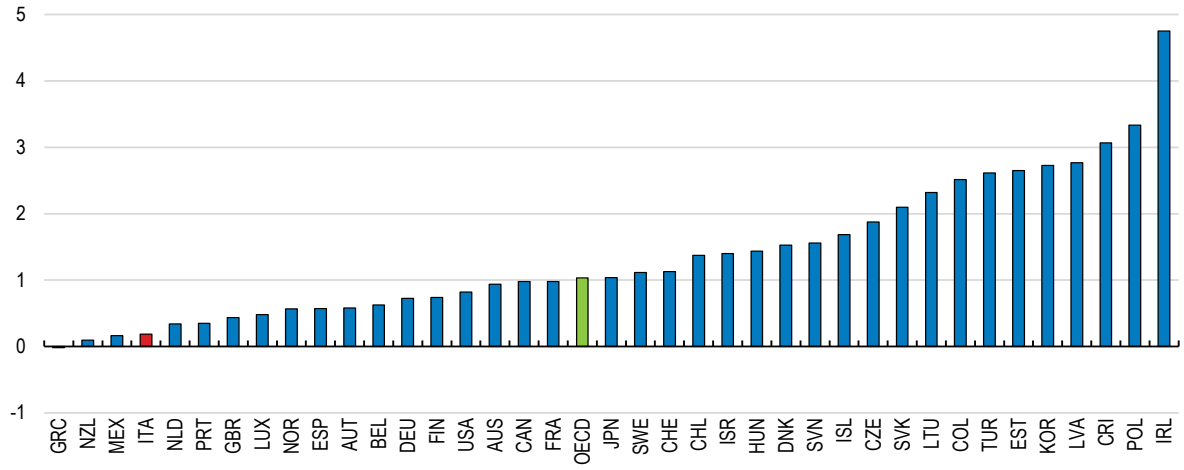
### *Boosting productivity requires addressing regulatory obstacles and more concerted digital skill development*

*Weak productivity is concentrated in the services sector and seems linked to excessive regulation*

Italy's weak aggregate productivity performance (Figure 1.28) compounds the growth-inhibiting effects of an ageing society and low employment rates. Productivity is the main driver of growth and well-being over the long run, allowing resources to be combined in new ways, rather than relying simply on increased accumulation of capital and labour which are subject to decreasing returns to scale (OECD, 2015[64]). Large differences in income per capita observed across countries reflect in large part differences in labour productivity. Lagging productivity translates into relatively low wages and higher inequality when productivity dispersion is high (Andrews, Criscuolo and Gal, 2016[65]).

### Figure 1.28. Italy's productivity growth has lagged its peers for the last two decades

Average annual growth rates between 2012 and 2019, USD per hour worked, constant 2015 prices and PPP




Source: Calculations based on data from OECD Productivity database.

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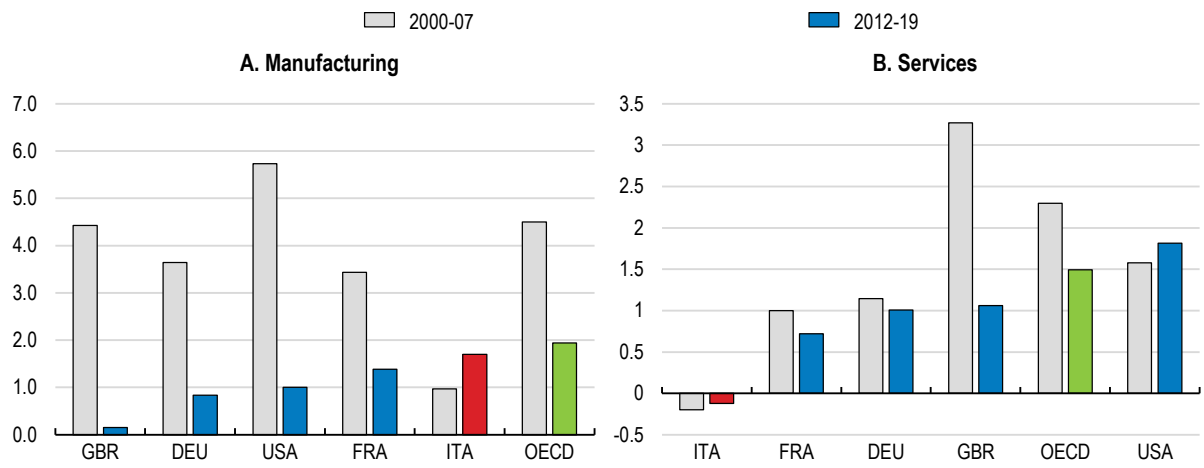
Weak aggregate performance masks significant divergences between industries, firms and regions. Productivity gains in manufacturing since the early 2010s have outstripped many peers in Europe (Figure 1.29). The exit of lower productivity growth firms, the entry and growth of more productive firms as well as increases in R&D have underpinned the improvement (Bugamelli et al., 2018[66]). Most of the productivity gains were driven by improvements in manufacturing firms with average productivity, rather than the top performers (Lotti and Sette, 2019[67]). In contrast, service sector productivity growth has remained negative since the sovereign debt crisis (Figure 1.29), weighing on aggregate productivity growth (Giordano, Toniolo and Zollino, 2017[68]); (Bugamelli et al., 2018[66]). In the services sector, productivity growth has slowed in both the top performers as well as in the least productive firms.

## Figure 1.29. A recovery in manufacturing productivity, but services sector productivity lags

Gross value added per person employed in constant prices, average annual growth rates




Note: Each panel contains unweighted OECD average of available countries. Due to data unavailability, the OECD average excludes Colombia, Mexico and Turkey for any panels.
Source: Calculations based on data from OECD Productivity database.

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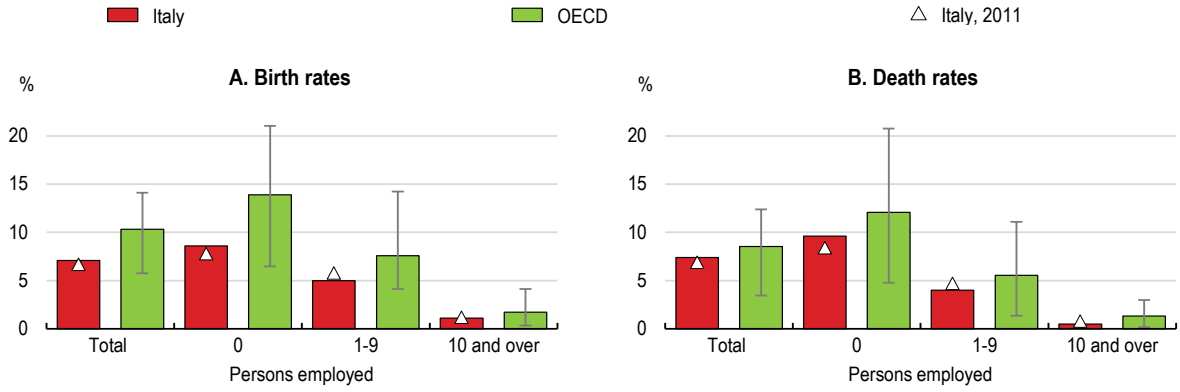
Dynamism in the Italian corporate sector is low. There are fewer firms created in Italy than the OECD average (Figure 1.30). Once created, firms survive for longer than the OECD average – but they also tend to stay small and grow very slowly (OECD, 2020[69]); the share of high-growth firms in Italy remains low (OECD, 2020[48]). The tendency for firms to stay small in Italy is interrelated with the ability to raise managerial skills, adopt new technology and invest in human capital (Visco, 2020[70]). Low rates of exit limit the pace of capital reallocation across firms, lowering overall productivity. These low exit rates and potentially high sunk costs in the event of closure can in turn impact on the rate of entry of new firms, as well as their subsequent growth rates (OECD, 2020[69]).

## Figure 1.30. Firms' entry and exit rates lag other countries

Birth and death rates of all enterprises, 2018 or latest




Note: Birth (death) rate is the number of enterprise births (deaths) divided by the number of active enterprises in the reference period. Each panel contains unweighted OECD average of available countries. Due to data unavailability, the OECD average excludes Chile, Costa Rica and the United States for any panels. Whiskers indicate range of OECD countries between the first and the last decile.
Source: OECD (2021), OECD Structural and Demographic Business Statistics (database).

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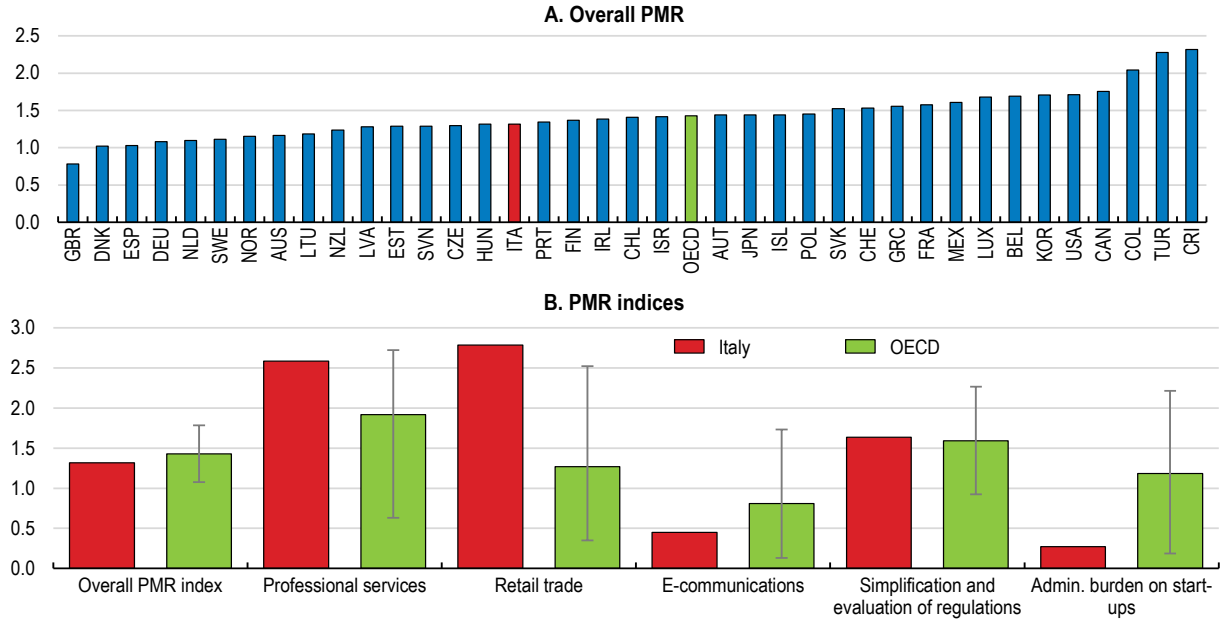
Dynamism is negatively affected by excessive regulations, which reduce competition, efficiency and workers' mobility between firms (Bambalaite, Nicoletti and von Rueden, 2020[71]). They increase the productivity gap between leading and lagging firms (Andrews, Criscuolo and Gal, 2016[65]) as well as mark-ups (Thum-Thysen and Canton, 2017[72]). Lower entry barriers and more effective exit processes can boost productivity by allowing a reallocation of resources to the most promising firms and sectors (OECD, 2019[73]). Numerous efforts to simplify new regulations have been undertaken, although the reforms have not always prioritised the highest impact areas, nor simplified the existing stock of regulations or how they are implemented, as discussed in Chapter 2. The National Recovery and Resilience Plan's near-term competition focus is on key network industries, which should support faster investment. Competition in services sectors also requires attention.

Italy scores relatively well on the OECD's product market regulations index, and has made significant improvements to the regime for start-ups (Figure 1.31). However, regulations are high for retail, limiting sales promotions as well as store openings. Entry restrictions for professional services are very high (Figure 1.32) and associated with both quantitative restrictions, as well as regulated fees. The impetus for dynamism and competition from online services such as Airbnb or Uber is often limited by regulations – for example, forcing drivers to return to a specific point or for homeowners to comply with complicated procedures. Entry into Italian services subsectors is between 30% and 50% lower than the international benchmark (OECD, 2020[69]). The entry rate in regulated professions is lower than in other occupations and wages about 9% higher (Mocetti, Rizzica and Roma, 2019[74]). This has a depressing impact on productivity: (Ciapanna, Mocetti and Notarpietro, 2020[42]) estimate service sector liberalisation in Italy could induce a permanent increase in the service sector TFP of 4.3% and a permanent reduction in the services sector mark-ups of 0.7 percentage points. (Bambalaite, Nicoletti and von Rueden, 2020[71]) estimate an almost 0.3 percentage point increase in the efficiency of labour allocation if Italy moved its occupational entry regulations to the stringency of Sweden.

## Figure 1.31. Product market regulation in Italy's services sector lags other areas

Product market regulation (PMR), Index scale from 0 to 6, from most to least competition-friendly regulations, 2018




Note: Administrative burden on start-ups includes licenses and permits. Whiskers indicate range of OECD countries between the first and the last decile.
Source: OECD (2020), OECD Product Market Regulation Database.

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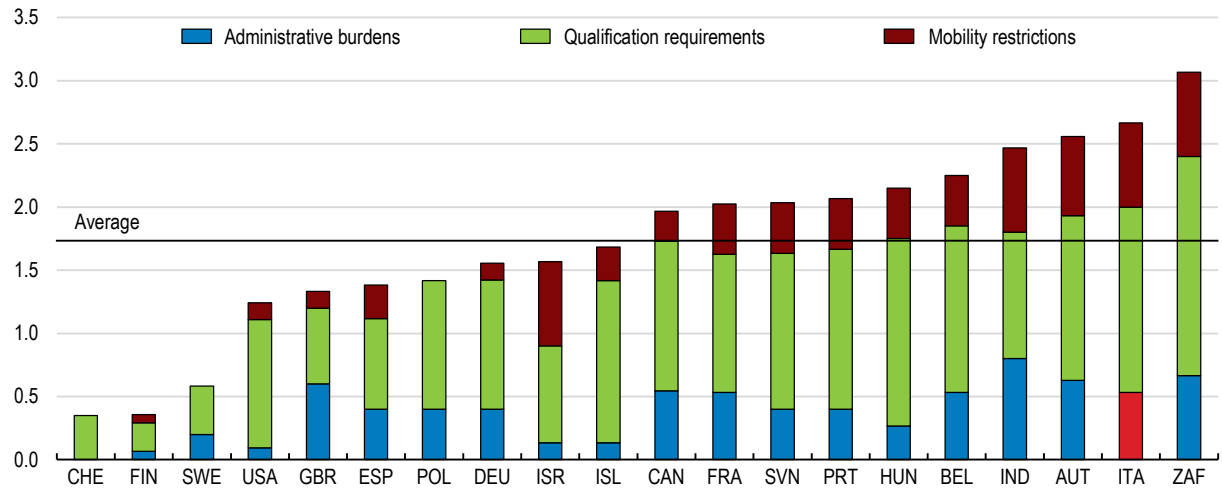
Authorities could support better information flow and sanctions regarding the quality standards for goods and services, rather than reserving activities or setting standards for the professionals providing them. This could include replacing licensing systems with less distortionary certification schemes and leverage digital platforms (Bambalaite, Nicoletti and von Rueden, 2020[71]).

A productivity board (see Box 1.8) could be particularly helpful in identifying and communicating the benefits of regulatory, competition and other policy reforms that can best support productivity and other policy goals. In Italy, the board could inform the design and implementation of reforms and assess the benefits for productivity of the reforms included in the National Recovery and Resilience Plan. It may also help ensure more consistent implementation of the annual law for competition. Provided for in 2009 legislation, the intention was to annually remove obstacles or develop competition based on advice from the Competition Authority, but implementation was limited. The 2015 draft was watered down and passed in 2017 (European Commission, 2017[75]). In 2021, the Competition Authority's annual submission focused on network industries and investment, many of which were included in the National Recovery and Resilience Plan.

## Figure 1.32. Professional services restrictions are very high

Occupational entry regulations (OER) indicator for professional services




Note: An indicator value of 0 indicates the absence of regulations, 6 reflects a fully regulated market. Regulations for Canada and the United States represent the unweighted average of province/state level regulations.
Source: Von Rueden, C. and I. Bambalaite (2020), "Measuring occupational entry regulations: A new OECD approach", OECD Economics Department Working Papers, No. 1606, OECD Publishing, Paris, https://doi.org/10.1787/296dae6b-en

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### *Digitisation needs to be supported to boost productivity*

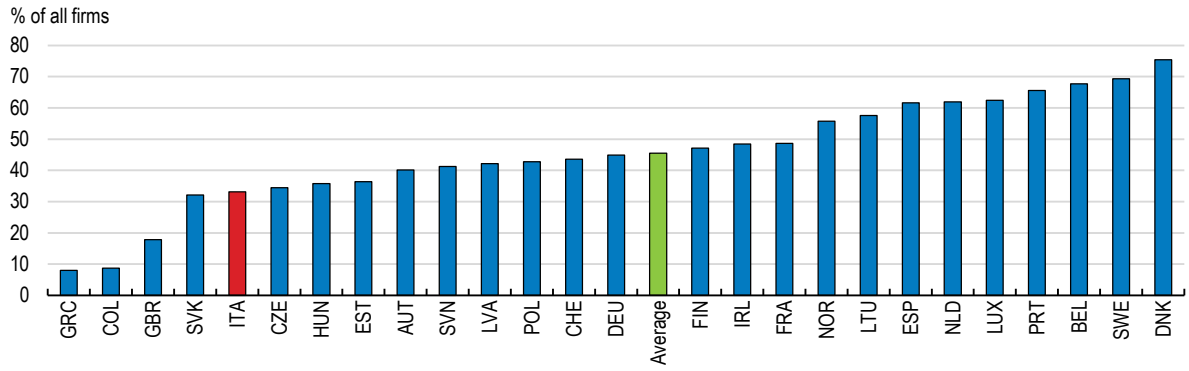
Digital literacy and the take-up of digital services is low relative to the rest of the OECD. Only 44% of people aged 16-74 years possess basic digital skills vs 57% in the EU. Supporting quicker rollout of fast broadband, which is currently very low (Figure 1.33), could accelerate digitisation (Andrews, Nicoletti and Timiliotis, 2018[76]); (Gal et al., 2019[77]). The National Recovery and Resilience Plan allocates EUR 6.7 billion to broadband infrastructure. The new broadband strategy aims to give access to 1 gigabit per second connections across the whole country by 2026, ahead of the European targets for 2030 (Ministro per l'Innovazione Tecnologica e la Transizione Digitale and Ministero delle Sviluppo Economico, 2021[78]). Importantly, the plan targets simplified authorisation processes for infrastructure and seeks to

designate fixed and mobile ultra-high-speed infrastructures as strategic. Vouchers, initially for low-income households and thereafter other families and SMEs, will support the migration of users from copper to faster fibre networks.

It is also necessary to invest in complementary intangible assets such as technical and managerial skills, since low management skills reduce the take-up of digital technologies (Andrews, Nicoletti and Timiliotis, 2018[76]). A number of countries have encouraged increased digital uptake by SMEs through encouraging digital platforms. Australia, Korea, Japan and France all provide support to SMEs to transition to online sales. In addition, the current push to raise the use of e-Government services, alongside behavioural shifts underway due to COVID, will help to increase familiarity with e-services (Figure 1.34 and Box 2.10). The broader shift to digitalising public services and processes forms part of efforts to improve the effectiveness of the public administration (see Chapter 2).

## Figure 1.33. Access to high-speed broadband is low

Percentage of businesses with a high-speed broadband connection, 2020 or latest year




Note: High-speed broadband refers to a broadband connection of at least 100 Mbit/sec speed. The average is the unweighted average of the OECD countries shown in the graph.
Source: OECD (2021), ICT Access and Usage by Businesses (database).

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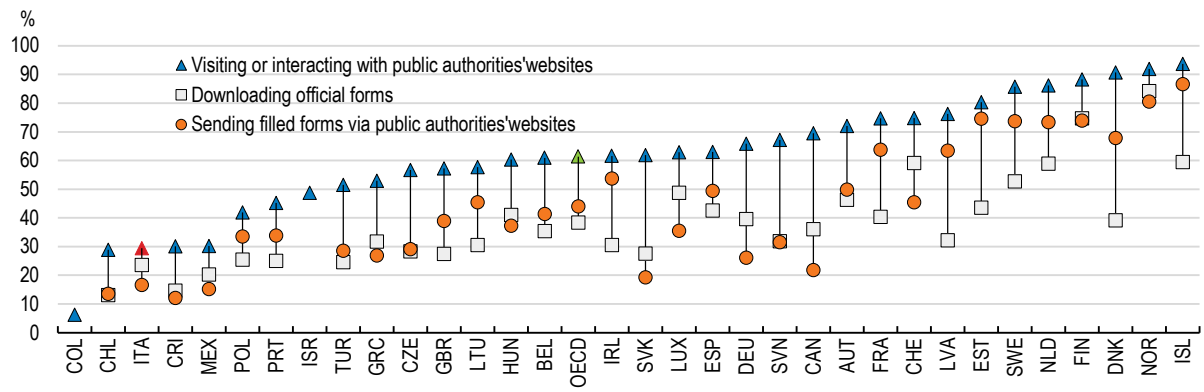
## Figure 1.34. There is scope to increase the use of government e-services

Use of digital government services by individuals, % of individuals aged 16-74, 2020 or latest




Note: Due to data unavailability, the unweighted OECD average excludes Australia, Japan, Korea, New Zealand and the United States.
Source: OECD (2021), ICT Access and Usage by Households and Individuals (database).

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### Box 1.8. OECD countries' experience in using productivity boards to promote public sector reforms

A growing number of OECD countries have found that establishing well-resourced, permanent bodies dedicated to developing policies and communicating their benefits can accelerate reforms. Although they are often called "Productivity Boards" or Commissions", governments frequently set a wider mandate that can include green growth and social issues, as well as the public sector's role and effectiveness. These bodies evaluate government policies and regulations in specific areas that are identified as priorities, and recommend reforms. They can identify trends, produce robust evidence, collect data and consult with stakeholders. In the process, they make the case for reforms by clearly presenting their benefits, which are often diffuse or uncertain. They support a "whole-of-government" approach, helping overcome fragmentation in policy-making across different public agencies or layers of government. They can serve as a platform to share ideas and help forge a common view, deepening national ownership of reforms, including in government bodies responsible for implementation.

These bodies fall into three broad types:

1. Stand-alone inquiry bodies, such as the Productivity Commissions in Australian, Chile and New Zealand. These are generally well-resourced with strong analytical skills, are independent and have inquiry and consultative mandates.
2. Advisory councils, such as the French Conseil National de Productivité, the US Council of Economic Advisers, and the Belgian Conseil National de la Productivité. These may tap into the existing knowledge of several well-established, high quality institutions without necessarily building their own capacity.
3. Ad hoc task forces, such as the Norwegian Productivity Commissions. These may be formed with temporary mandates to assess particular issues.

Countries' experience suggests that these bodies are generally most effective when they can work autonomously and have strong internal analytical, consultative and communication skills. Occasional external audits or reviews can help ensure these bodies produce robust, relevant analysis. Institutions located outside government can better promote reforms that challenge vested interests and work towards longer-term policy goals. For example, in reviewing regulations in a priority policy area, such bodies operate at 'arm's length' from regulators. They bring experience in consulting with different groups, in quantifying the benefits and costs of policies and regulations aimed at supporting productivity, competitiveness and sustainable growth, as well as in identifying alternative approaches.

Italy has committed to establishing a productivity board. Recent Economic Surveys of Italy (OECD, 2015[79]); (OECD, 2017[80]); (OECD, 2019[53]) have recommended that the board have the mandate to provide advice to the government on matters related to productivity, promote public understanding of reforms, and engage in a dialogue with stakeholders. Similarly, the European Council recommended in 2016 that all Euro-area countries establish national productivity boards (European Council, 2016[81])

Italy's complex, multi-layered government suggests that an autonomous body with an inquiry capacity, sufficient research capacity and strength, and independence in communicating its analysis and recommendations may be most effective. A board of core experts who are able to commission and supervise research, utilising existing resources and institutions, would avoid creating an additional institution. This approach is similar to other EU countries. It could strengthen capabilities to monitor trends, assess the potential impacts of policy options, build a consensus for reform, and encourage policies that better support productivity, competitiveness, sustainability and inclusiveness.

Source: (Banks, 2015[82]); (Renda and Dougherty, 2017[83]); (European Commission, 2019[84]).

## Past OECD recommendations on raising productivity, competition and regulatory processes

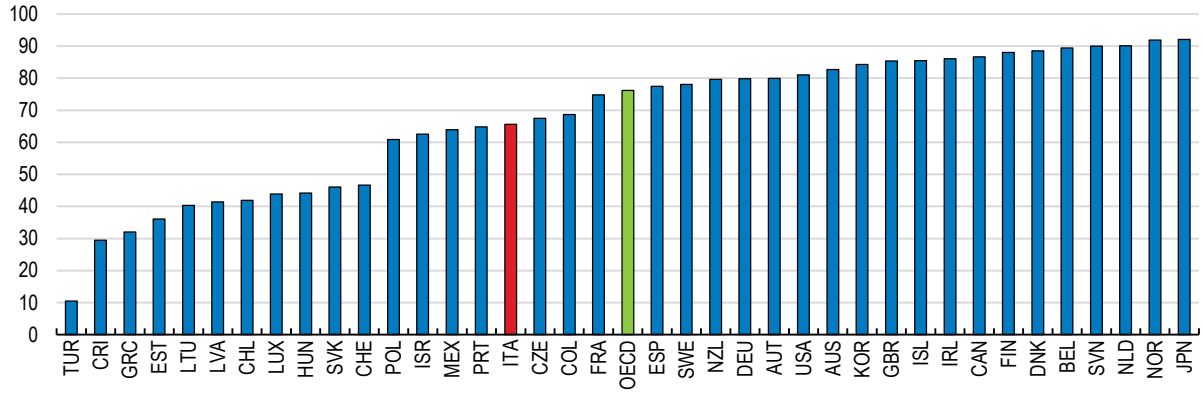
| Past recommendations | Actions taken since 2019 |
|---|---|
| Consider establishing a Productivity Commission with the mandate to provide advice to the government on matters related to productivity, promote public understanding of reforms, and engage in a dialogue with stakeholders. | No progress |
| Reduce public ownership, especially in TV media, transport and energy utilities, and local public services. | Privatisation programme has made little progress. |
| Privatise and liberalise energy and transport sectors. | The price liberalisation for gas and electricity has been postponed |
| Approve and fully implement the public administration reform to open up to competition local public services | Legislation has been passed although competition is often limited. The reform of local state owned enterprises is ongoing but has been delayed. |
| Ensure that legislation is clear, unambiguous and supported by improved public administration, including through reduced use of emergency decrees. | The "Golden Power" rule has been expanded in terms of the scope of sectors it applies to. |
| Make more extensive and better use of regulatory impact analyses, especially by engaging with stakeholders in ex-ante consultative processes | No change. |
| Complete framework for regulation of water and other local public services, ensuring regulatory independence. | These competencies now fall under a specific regulator. |
| Introduce national oversight of regional regulatory competences (e.g. retailing, land use planning). | No change. |

### *The planned insolvency code should be implemented alongside measures to improve their efficiency*

Italy legislated far-reaching bankruptcy reforms in 2019. These reforms include enhanced governance procedures for firm directors, simpler procedures favouring out of court settlement, and the use of a specialised pool of bankruptcy experts to help resolve court cases (CERVED, 2020[85]). The early warning system prioritises early detection of bankruptcy problems based on firms' capitalisation rates and financial performance, the thresholds of which vary according to firm size and legal status (Orlando and Rodano, 2020[86]). Assessments are undertaken at the firm's request or due to compulsory referrals from institutional creditors or supervisory bodies such as auditors. The need for action is assessed by the local chamber of commerce's crisis management committee (OCRI - Organismo di Composizione della Crisi d'Impresa). Incentives have been introduced for entrepreneurs to declare problems earlier. The reforms should help to reduce the time spent in courts, and the early warning mechanisms should help increase the speed with which corrective action is taken for firms in difficulty. These changes could potentially improve recovery rates for insolvency procedures, which are low in Italy (Figure 1.35). The initial 2020 implementation date was postponed to September 2021 in light of the COVID crisis.

## Figure 1.35. Low recovery rates can stymie firm creation and raise the costs of recessions

Recovery rate, cents per dollar




Note: The recovery rate is recorded as cents on the dollar recovered by secured creditors through reorganization, liquidation or debt enforcement (foreclosure or receivership) proceedings. OECD is the median of OECD countries.
Source: World Bank (2020), Resolving Insolvency, Doing Business 2020.

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Streamlining and digitising some of the early warning processes would help avoid the system becoming overwhelmed. (Orlando and Rodano, 2020[86]) estimate that 13 000 firms may be flagged by the early warning system, a fourfold increase in the number of firms that would normally be assessed for insolvency risk. Automating the prioritisation of cases to be considered by groups of business experts would allow the system to become operational without being overwhelmed. The Netherlands implemented bankruptcy reforms despite the pandemic, which has provided time for the system to adapt prior to the expected increase in bankruptcies following the COVID crisis. Sending standardised, non-binding guidelines and information about the options available to firms that are flagged on the early warning system before they need to be assessed formally by the local chamber of commerce could improve managers' responses before requiring more costly and complex interventions.

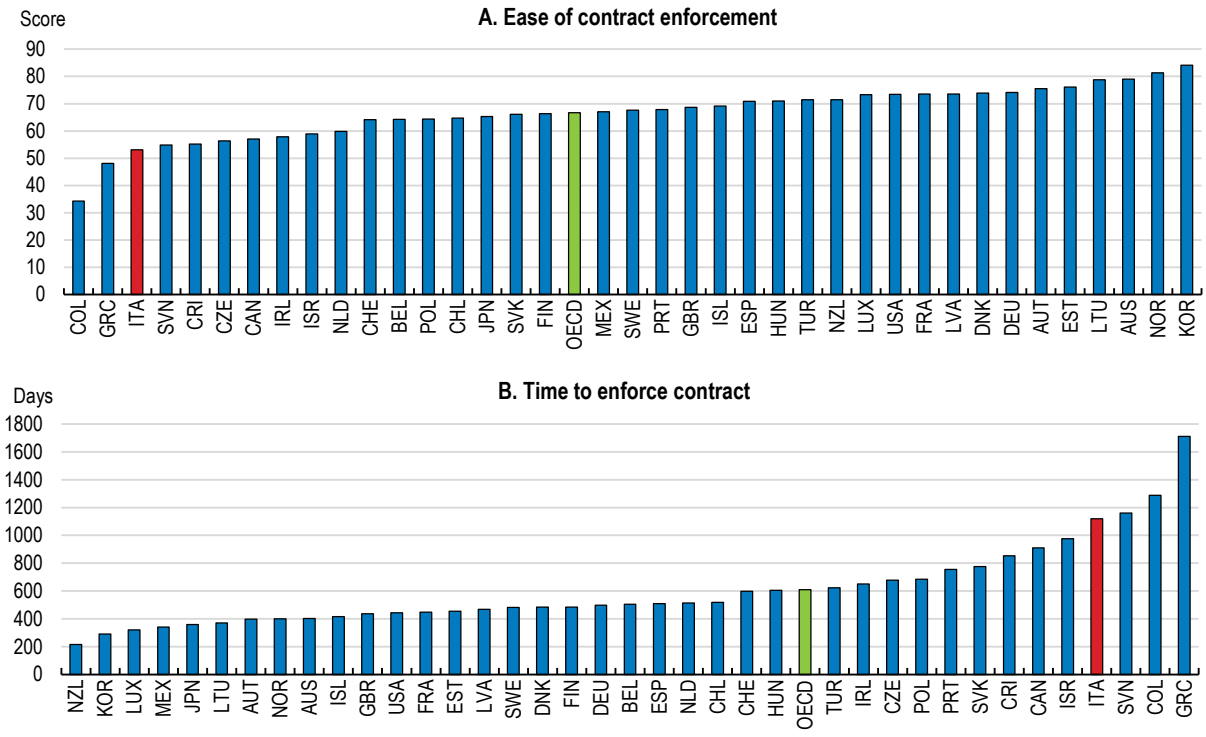
### *Civil justice efficiency needs to improve*

Reforms to the civil justice system helped reduce the time to complete civil cases at trial from 13 to 11 months between 2014 and 2019, and pending proceedings at civil courts fell by 23.7% over the same period. Backlogs in the court of appeals and tribunals have fallen 50% and 43% over the same period (Ministero della Giustizia, 2020[87]). Nonetheless, the system continues to struggle with a high backlog of cases (Council of Europe, 2020[88]). Civil and commercial litigious cases remain characterised by lengthy delays and high levels of uncertainty (Figure 1.36). Proceedings at Italy's highest court lasted 1 293 days in 2019, the highest in Europe, where the average is 207 days (Ministero della Giustizia, 2020[87]). Improving the efficiency of the judicial system is critical to raise productivity (OECD, 2019[53]); (OECD, 2017[80]); (Ciapanna, Mocetti and Notarpietro, 2020[42]).

Authorities propose temporarily raising the number of staff in the civil justice system to tackle backlogs. The EUR 2.3 billion allocated by the National Recovery and Resilience Plan seems small considering the impact of court backlogs in raising uncertainty, reducing returns and lowering productivity. The amount will average EUR 0.5 billion per annum to support 8 000 fixed-term contracts and 1 000 honorary magistrates, who assist judges in drafting sentences, for two consecutive 2.5 year cycles (Relazione del Ministro sull'amministrazione della giustizia, 2020[89]). The total annual justice system budget is EUR 5.5 billion on personnel.

The number of personnel also needs to be accompanied by more effective ways of working. Parliament is currently considering a range of reform proposals for the civil justice system that should be swiftly approved to minimise the likely surge in cases from postponed legal disputes as well as the likely increase in court cases related to the COVID crisis. The bill before parliament includes proposals to reduce time spent in appeals, the procedure for forced execution (which will speed up bankruptcy cases) and rules on alternative dispute resolution, which have been raised in past surveys (OECD, 2019[53]); (OECD, 2017[80]). The bill includes facilitating exclusive online filing and payment in civil courts, reduced instances requiring multiple judges and greater administrative management oversight of judges, which will include their management of timeframes for procedures (European Commission, 2020[90]). A Commission has been established to report on tax justice and the backlog in tax cases. Specialised courts could reduce the likelihood of appeal. Greater promotion of the large number of existing alternative dispute mechanisms in Italy could also contribute to reducing court workloads and backlogs.

## Figure 1.36. Italy's justice system in practice reduces the efficacy of its property rights framework




Note: The enforcing contracts indicator measures the time and cost for resolving a commercial dispute through a local first-instance court, and the quality of judicial processes index, evaluating whether each economy has adopted a series of good practices that promote quality and efficiency in the court system. A low score indicates contracts are harder to enforce. The indices refer to surveys of experts in specific cities; in Italy's case, this is Rome. Data refer to 2018/19. The most recent round of data collection was completed in May 2019.
Source: World Bank (2020), Resolving Insolvency, Doing Business 2020.

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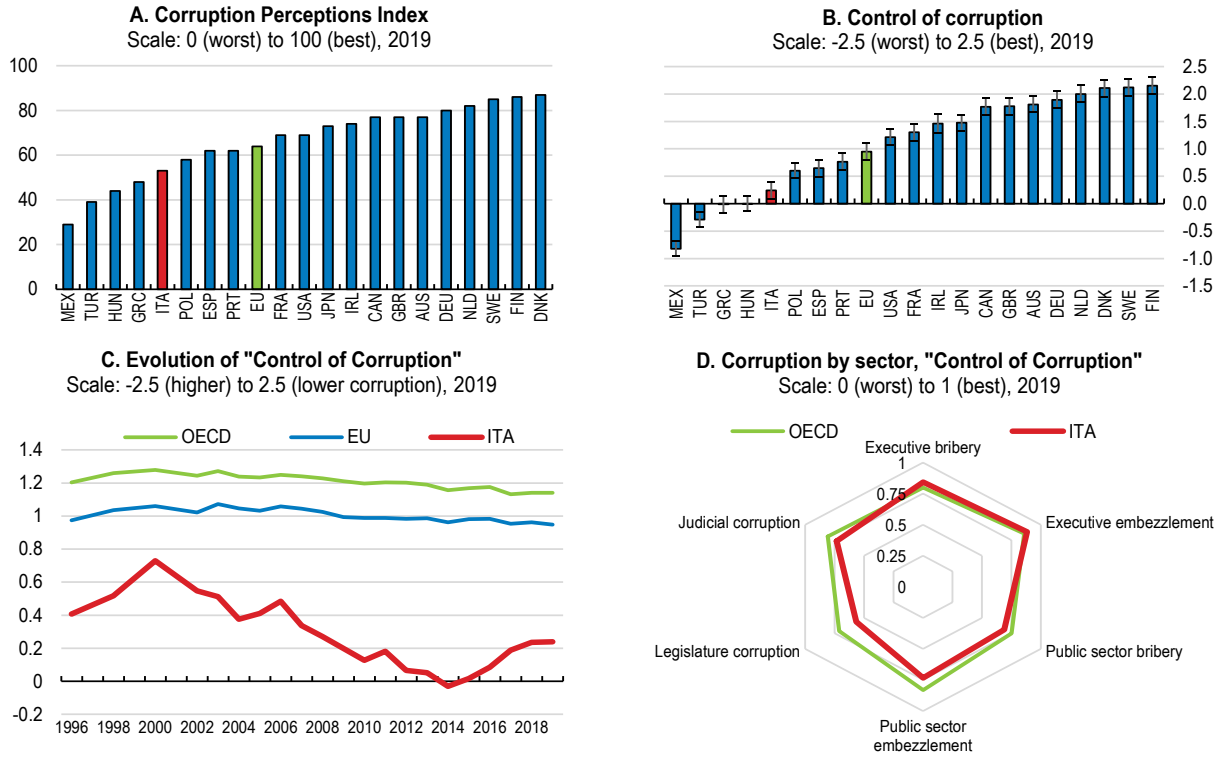
## Past OECD recommendations on civil justice and bankruptcy reforms

| Past recommendations | Actions taken since 2019 |
|---|---|
| Further streamline the court system, with more specialisation where appropriate; increase the use of mediation; enhance monitoring of court performance | Digital systems introduced in certain civil cases. Mediation has been encouraged but take-up remains low.<br>New judges have been appointed and can be flexibly deployed where needs are greatest. Regular recruitment of 300 judges and magistrates annually. |
| **Complete the reform of the insolvency regime**. | The insolvency regime will be implemented from September 2021. |

### *Tackling corruption could help improve confidence*

Italy's anti-corruption regime, which was mostly recently augmented in January 2019 with the so-called bribe-destroyer law, includes a stringent legal regime to discourage offenders, with lengthy prison sentences, a revised regime for undercover operations and witness cooperation incentives, as well as tougher sanctions for corruption in the private sector (Maggio, 2020[91]); (European Commission, 2020[90]); (United Nations, 2018[92]). Despite these efforts, perceptions of corruption remain high and trust in institutions low (Figure 1.37). Greater emphasis on simpler regulations that are implemented more effectively, as outlined in Chapter 2, could reduce the complexity of the business environment, lower the demands on civil servants and reduce the scope for corruption.

## Figure 1.37. Perceptions of corruption are still high compared to other OECD countries




Note: Panel B shows the point estimate and the margin of error. Panel D shows sector-based subcomponents of the "Control of Corruption" indicator by the Varieties of Democracy Project.
Source: Panel A: Transparency International; Panels B & C: World Bank, Worldwide Governance Indicators; Panel D: Varieties of Democracy Institute; University of Gothenburg; and University of Notre Dame.

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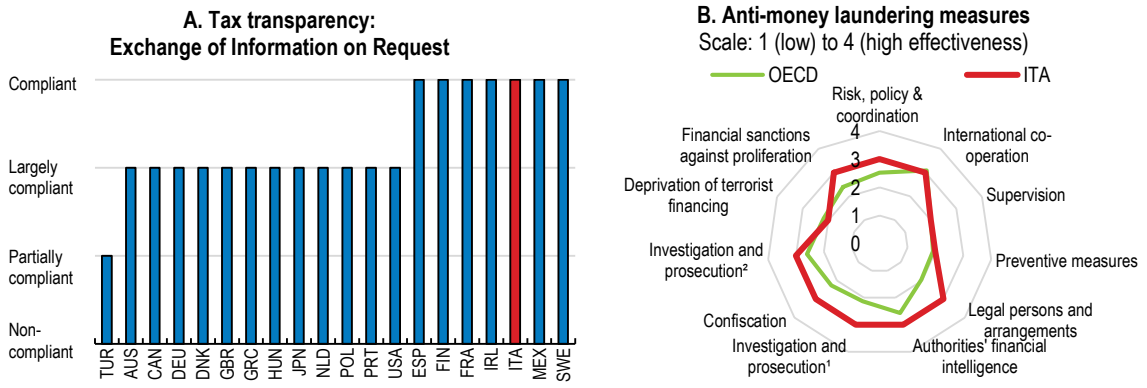
To improve perceptions of corruption, oversight of the integrity and accountability of high-ranking powerful public officials such as politicians and magistrates must increase (Cantone and Caringella, 2017[93]); (Carelli, 2019[94]). The legal framework on lobbying is fragmented, opaque and unable to address conflict of interest risks associated with the move to private party funding. The limits to self-regulation of magistrates was demonstrated in 2019; efforts are needed to enhance integrity standards and safeguards within their governing body. Stricter regulation on political participation of magistrates would contribute to safeguard the real and perceived independence and impartiality of the judiciary (European Commission, 2020[90]); (Carelli, 2019[94]). Enforceable asset declaration and verification systems for senior public officials need to be established (United Nations, 2018[92]).

## Figure 1.38. Italy has been effective in fighting money laundering




Note: Panel A summarises the overall assessment on the exchange of information in practice from peer reviews by the Global Forum on Transparency and Exchange of Information for Tax Purposes. Peer reviews assess member jurisdictions' ability to ensure the transparency of their legal entities and arrangements and to co-operate with other tax administrations in accordance with the internationally agreed standard. The figure shows first round results; a second round is ongoing. Panel B shows ratings from the FATF peer reviews of each member to assess levels of implementation of the FATF Recommendations. The ratings reflect the extent to which a country's measures are effective against 11 immediate outcomes. "Investigation and prosecution¹" refers to money laundering. "Investigation and prosecution²" refers to terrorist financing.
Source: OECD Secretariat's own calculation based on the materials from the Global Forum on Transparency and Exchange of Information for Tax Purposes; and OECD, Financial Action Task Force (FATF).

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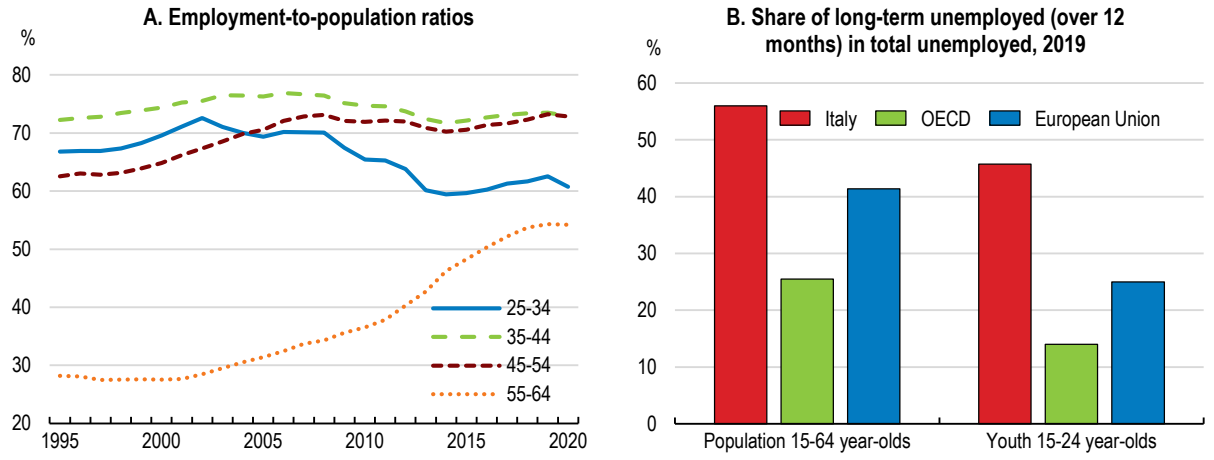
The establishment of a broad-based Anticorruption Alliance in early 2021 is welcome. Its efficacy will depend on the ability to convert its recommendations into actions. Chaired by the Judiciary and the Governor of the Banca d'Italia, a team of academic experts from a range of disciplines will consider issues raised in the National Recovery and Resilience Plan such as: i) the quality of regulation of public contracts; ii) the simplification of rules and procedures; iii) the quality of administrative and accounting controls; iv) the use of digital technologies to reduce the scope of corruption; v) regulatory shortcomings concerning lobbying; and vi) conflicts of interest (Relazione del Ministro sull'amministrazione della giustizia, 2020[89]).

### *Raising employment, in particular for women and youth*

The employment intensity of growth must rise to sustainably address low levels of employment and high rates of long-term unemployment (Figure 1.39). The government's primary employment strategy has been to temporarily reduce firms' cost of labour. To support the National Recovery and Resilience Plan, the government reduced social security contributions for between 18 and 36 months for firms maintaining or hiring workers in the South, and for new permanent hires of youth and women across the country from 2021 to 2023. It also made a labour income tax credit worth up to EUR 1 200 per year permanent, helping to reduce the labour income tax wedge by almost 2 percentage points.

## Figure 1.39. Access to employment is deeply unequal and unemployment is persistent




Source: ISTAT; and OECD (2021), Labour Force Statistics (database).

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Italy's recent temporary cuts make welcome inroads into its large labour income tax wedge, which is the fifth highest among OECD countries. Cuts in social security contributions should help to reduce the tax wedge for affected workers and raise their prospects of employment (Figure 1.40). Recent evidence on the impact of hiring credits in Italy has been found to be positive: (Sestito and Viviano, 2018[95]) find a 2015 measure supported 20% of new jobs created in the first half of 2015, whilst (Brunetti et al., 2020[96]) found that the employment incentives introduced in 2017 raised new hirings by 6.5% in industry and by 4% in services. In France, too, hiring credits introduced were found to be effective in creating new jobs when the economy is beginning to emerge from a slump. (Cahuc, Carcillo and Le Barbanchon, 2019[97]) found the effects particularly positive for lower-wage workers in 2009, (Martin and Rathelot, 2021[98]) and (Dares, 2021[99]) found a positive effect on youth employment in response to COVID-related measures. However, evidence of the long-term impact of hiring credits in France suggests they are less likely to support new jobs if maintained indefinitely (Cahuc, Carcillo and Le Barbanchon, 2019[97]).

A permanent reduction in the labour tax wedge through lower social security contributions or a re-designed personal income tax system could support higher levels of participation as well as employment, rather than relying on hiring credits. Eligibility thresholds for many tax credits, allowances and transfers phase out sharply, generating high marginal effective tax rates and disincentives to work particularly for low income earners (UPB, 2021[100]). Reducing in-work benefits more gradually as incomes rise would improve equity and incentives for beneficiaries with low incomes to increase their work effort and earn more (OECD, 2019[53])

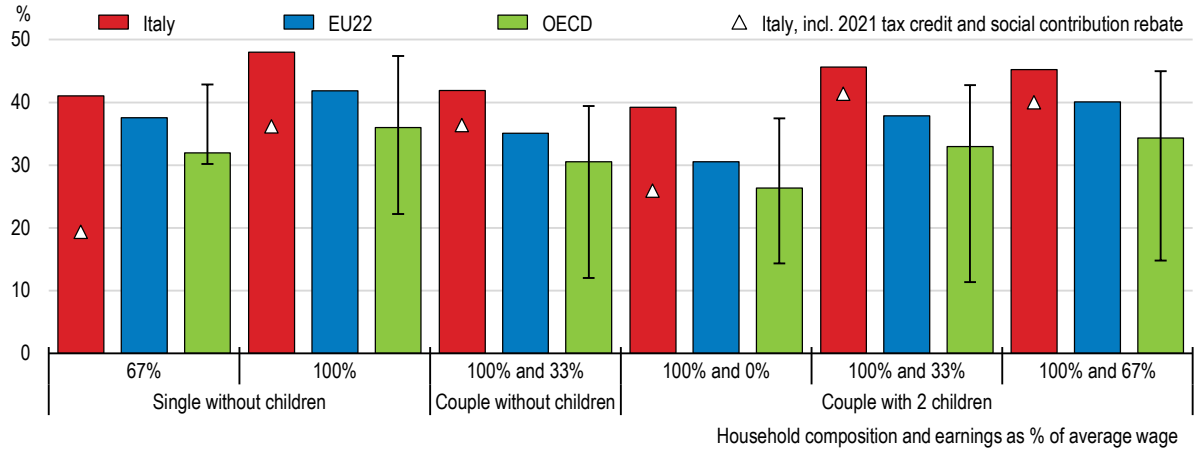
The monthly in-work tax benefit of EUR 100 introduced in 2021 is available as a tax credit and it has a much smoother marginal effective tax profile than the previous scheme. Resources of EUR 7 billion (0.4% of GDP) from 2023 onwards have been earmarked for the proposed unified child allowance, which will combine a range of incentives and be available as a tax credit, further raising the number of workers it will benefit. Whilst the design is yet to be finalised, it will seek to avoid sharp jumps in marginal effective rates. A temporary adjustment mechanism has been proposed until the formal scheme is introduced in 2022. Since many of these benefits are assessed based on household incomes, they can generate high marginal effective tax rates for second earners discouraging them entering the labour force. In many OECD tax systems, the second earner faces a lower effective tax rate than the first earner at most wage rates.

Tackling social support policies could further raise women's labour force participation. For women of prime working age, parenting is a key influence in the decision to enter the labour market. In 2020, 70% of women

between the ages of 25 and 49 without children were employed, compared to 55% in the same age group with at least one child under the age of six. This in turn is due to the lack or limited availability of social policies such as early childhood care or elderly care facilities, which is particularly acute in the South of Italy (ISTAT, 2020[101]); (Ferragina, 2020[102]). To speed up and improve the roll out of early childhood care services, authorities should expand the number of facilities available while monitoring and publishing consistent information about quality, as outlined in Chapter 2. To support access to quality facilities, the National Recovery and Resilience Plan proposes to increase spending on early childhood education and care by EUR 4.6 billion.

## Figure 1.40. Workers benefiting from Italy's recent reforms now face income tax wedges near the EU average

Average labour tax wedge, 2019




Note: The "Italy incl. 2021 tax credit and social contribution rebate" relates only to the employees eligible for these measures, and is not a workforce-wide value. EU22 and OECD averages are unweighted averages. Whiskers indicate range between the first and the last decile of OECD countries. Italy 2021 simulates the effect of the tax credit for employees and the rebate of up to EUR 6 000 per annum in employers' social security contributions for hiring women, workers younger than 35 and workers in southern regions, as provided in the NPRR. The labour tax wedge shows the difference between an employee's net take-home pay and that worker's total employment labour costs for their employer, relative to the total employment labour costs. This includes employee and employer labour income tax payments and tax credits, and social security contributions. This accounts for the employee's household type and wage rate, which is expressed relative to the country's average wage.
Source: OECD Tax database; Ministry of Finance and Economy, and OECD estimates for 2021.

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Other ways of reducing the non-wage cost of labour should be given greater consideration. Whilst the temporary ban on firing during the COVID-19 crisis was part of a quid-pro-quo for increased wage protection for workers, evidence suggests that lower firing costs can actually boost employment. The Jobs Act reforms introduced a new form of contract that reduced uncertainty about potential firing costs for firms with more than 15 employees. This contract resulted in a durable shift in these firms' propensity to create permanent contracts (Sestito and Viviano, 2018[103]); (Pigini and Staffolani, 2021[104]). By contrast, smaller firms that were not granted this option tended to resort to creating temporary jobs in the absence of generous social security contributions (Sestito and Viviano, 2018[103]).

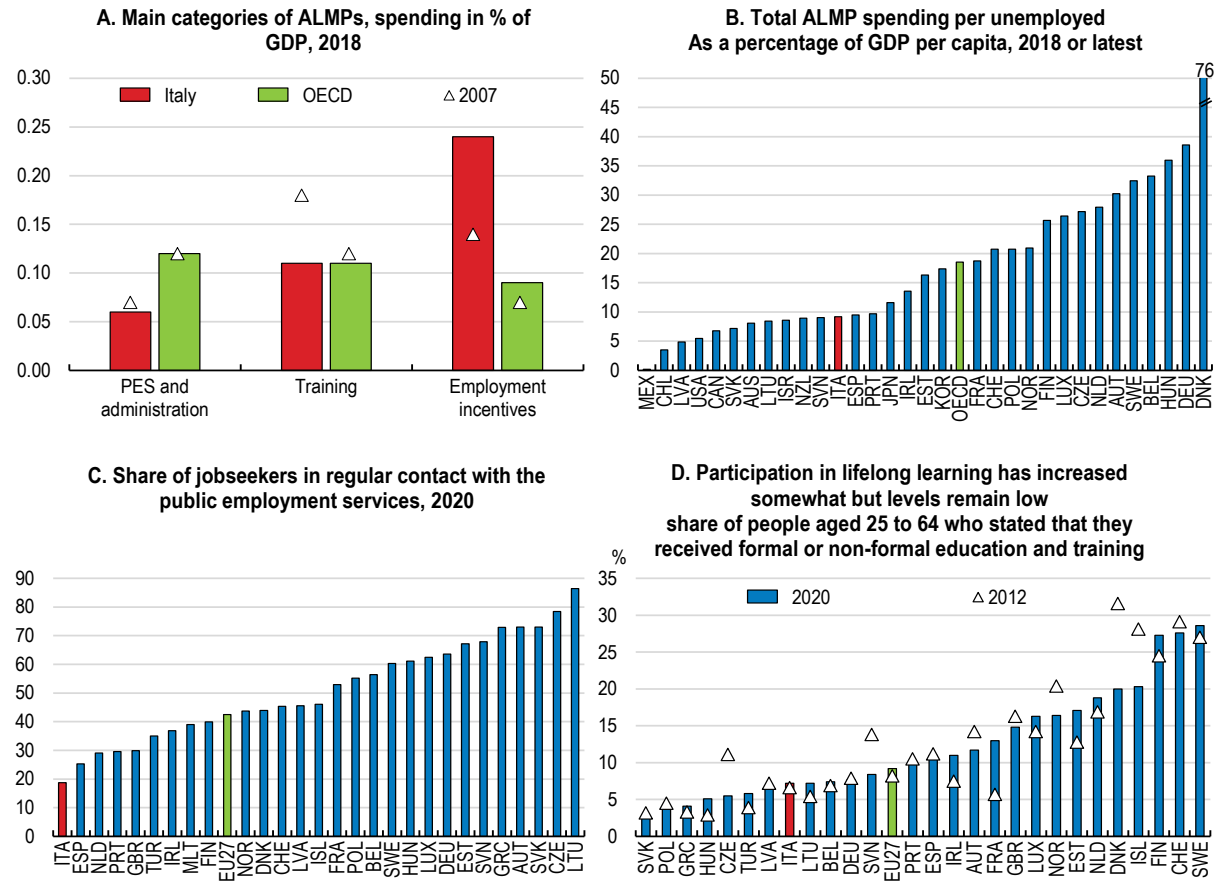
A highly skilled workforce has lower risks of long-term unemployment and raises firms' ability to grow and innovate. In Italy, the youth face high dropout rates and poor educational outcomes; these problems are more acute in the South, where the quality of education is lower (OECD, 2019[53]). The National Recovery and Resilience Plan allocates additional resources for schools. Efforts should focus on modernizing infrastructure, as well as supporting the training and motivation of teachers (Visco, 2020[70]). Skills in

science, technology, engineering and mathematics (STEM) require particular attention. The recent recruitment of 3 000 suitably qualified STEM teachers to begin in September 2021 is a step in the right direction. Reforms to the technical vocational scheme need to be more ambitious given its success in helping young people find employment.

### *Deepening access to adult learning*

The existing workforce also requires urgent support in upskilling. The OECD estimates that in Italy, 15.2% of jobs have a high risk of automation, and a further 35.5% of jobs may experience significant changes to how they are performed (Nedelkoska and Quintini, 2018[105]). Adult skills levels are low (Figure 1.41.) and only 25% of Italian adults participate in job-related training, just above half the OECD average. Spending on training has fallen as a share of GDP. Although it is now in line with the OECD average, aggregate spending per unemployed is amongst the lowest in the OECD (Figure 1.41.). A strategy to firstly improve, and thereafter increase resources for, training in the context of a constrained budget is required.

**Figure 1.41. Spending on ALMPs has risen, but high unemployment and skills gaps require more**




Note: Panel B: OECD average covers the countries shown in the graph.
Source: OECD (2021), Statistics on Labour Market Programmes (database); OECD (2021), Labour Force Statistics (database); OECD (2020), National Accounts Statistics (database); and OECD (2019), OECD Employment Outlook; OECD (2019), Skills Matter Additional results from the survey of Adult skills, Annex A.

StatLink https://stat.link/po3s7n

The majority of training for workers is conducted via Training Funds. Despite being a significant payroll cost, take-up of the funds is low, particularly by smaller firms - just 6.2% of smaller firms access the funds compared to 64.1% of firms with more than 1 000 employees (OECD, 2019[106]). Burdensome application procedures, the high opportunity costs of workers being in training, the lack of a learning culture among entrepreneurs of small businesses and poor awareness of the availability of funding limit take-up by smaller firms (OECD, 2021[107]); (OECD, 2019[53]). The training is often procedural, with a high proportion of health and safety training rather than technical skills despite, for example, firms' relatively low levels of digital training (Figure 1.42). A greater focus on digital skills needs to be promoted. This could be achieved by focusing on individual training accounts, rather than a firm-centric approach to determining training, as well as by the training funds providing more standardised courses for workers in SMEs, thereby simplifying the application and approval process. The National Skills Certificates could have an expanded role in recognising on-the-job training and identifying workers' training needs.

### Figure 1.42. Firms are not providing their employees enough digital training

Percentage of businesses providing ICT training to their employees by firm size, 2020 or latest year

Note: Firms with at least 10 employees that provided any type of training to develop the ICT related skills of their employees within the last 12 months. OECD average covers the countries shown in the graph.
Source: OECD (2020), ICT Access and Usage by Businesses (database).

StatLink https://stat.link/ahnyg5

Social partners, who are responsible for governing the Training Funds, could grant SMEs higher reimbursement rates, faster reimbursements and simplified application procedures (OECD, 2021[107]). A greater focus on management training could help improve SMEs' investment and hiring practices (Visco, 2020[70]). To help reduce the costs of training for firms, the government established the new skills fund (Fondo Nuove Competenze) under the Budget Law 2020. It provides compensation for the time lost to firms whose workers undertake training, with a further EUR 2 billion proposed in the National Recovery and Resilience Plan. Although these costs are very significant for smaller firms, it is not clear they will be able to use them (OECD, 2021[107]). Earmarking a sub-set of funds for SMEs, which are allocated on a first-come, first-served basis, along with simpler application procedures, could improve the probability that micro and small firms will use them. SMEs' awareness of the tools available to help them plan and implement worker training can be raised with networks and coaching (OECD, 2021[107]).

#### *Public employment services need to be better managed*

For the unemployed, public employment services are an important potential channel for training and job placement. In Italy, they have been hampered by unclear organisational structures, large regional variations in performance and low levels of funding. As part of the National Recovery and Resilience Plan, the authorities proposed a new national programme ("GOL") for the unemployed and those employed in

companies undergoing restructuring or bankruptcy procedures ("in transition"). The plan seeks to improve profiling and the selection of relevant training for employment opportunities. It importantly leverages successes in the National Skills Certification Policy, allowing past experience to be recognised. Institutional arrangements will be key to the success of the project. Performance can be increased through improving communication and cooperation across regions and between public and private providers, hiring better-skilled staff and leveraging digitalisation, such as online registration and support, effective database management and communication tools, as outlined in Chapter 2. Countries such as Austria and the Netherlands have used digital channels, including more informal channels such as free access training videos and tests that can be accessed directly via public employment services' websites (OECD, 2020[108]); (OECD, 2020[108]).

## Past OECD recommendations to raise employment and skills

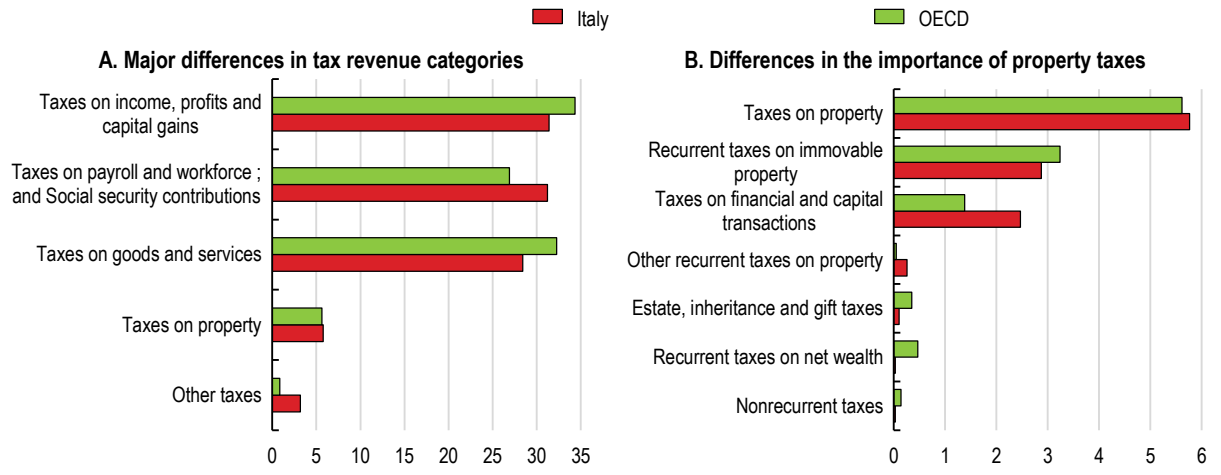
| Past recommendations | Actions taken since 2019 |
|---|---|
| **Reduce the labour income tax wedge on low-income workers and second earners through lowering employer social security contributions and tax and benefit reforms, while maintaining the tax system's progressivity.** | The most recent budget law extended the reduction in social security contributions for workers in the South for a further 4 years. For firms hiring new workers under 36 years old, between 2021 and 2023, social security contributions can be reduced by 100%, up to a maximum value of EUR 6 000. In 2021 and 2022, employers hiring women can also qualify for a 100% reduction in social security contributions, although for a shorter period (18 months for a full time job and 12 months for a temporary job) |
| **Provide more quality infant care places at a low cost relative to average wages, prioritising regions with low female employment.** | Government has provided for increased ECEC funding through the budget and seeks to raise the number of places in the South |
| Implement a multi-year plan to revamp public employment services based on enforcing essential service standards and higher investments in IT systems, profiling tools and human resources. Raise the efficiency of public employment services by decreasing job seeker-to-staff ratio. Employ profiling tools and specialised counsellors. | The number of counsellors was increased to support job search, although outcomes have been mixed. |
| **Grant to ANPAL the power to restructure public employment services that repeatedly fail to meet commonly agreed performance targets.** Ensure ANPAL has the powers to coordinate local employment services offices and set national standards on job search and training policies. Implement a systematic assessment of the labour market impact of activation programmes and focus funding on those that are performing well | ANPAL is providing guidelines on minimum quality standards for public employment services, but its ability to influence outcomes at public employment services remains limited. |
| Facilitate labour mobility between regions, occupations and sectors through skills recognition and the use of skills assessment | Skills certification is growing among participants in Training Funds. The National Skill Certification System came into effect in January 2021 ("Linee guida del Sistema Nazionale di Certificazione delle Competenze"). |
| Strengthen the post-secondary vocational education and training (VET) system following the example of Istituti Tecnici Superiori. Establish a national body on VET involving the business sector and key stakeholders to improve training. | The budget allocations to VET have risen, but remain relatively small. A national body has not been established. However, relationships between businesses and key stakeholders are being strengthened to better to link the training component of VET with apprenticeships. |
| Introduce minimum training quality standards to the firms providing traineeships, internships and apprenticeships. | No progress |
| Target the low skilled in lifelong learning by facilitating integration into formal education through part-time programmes in post-secondary education and vocational training. | A pilot programme is ongoing in public employment services and in provincial centres for adult education for the self-assessment of adults' skills based on PIAAC. |
| Develop digital skills at all levels of education and training. | Digital skills are being developed as part of the national school curriculum. Tax credits for worker training exist as part of the Transizione 4.0 / Impresa 4.0 plan, although specific digital training is not required. |
| Develop a career-based system for teachers based on a well-functioning system for evaluating teachers to attract and retain the best-qualified teachers and improve career development. | Funds continue to be allocated for the training needs of teachers and to support their professional development. |
| Create partnerships between schools and the business sector to create quality work-based learning opportunities for students as envisaged by the Good School reform. | Since 2018/19, vocational institutes and regional vocational education and training providers are part of the national network of vocational schools. |

### *Tax reforms could finance a lower labour tax wedge*

Tax revenues in Italy made up a substantial 42.4% of GDP in 2019, compared to an OECD average of 33.8%. Revising the tax composition can foster economic growth by reducing taxes most harmful to growth (Arnold et al., 2011[109]); (Brys et al., 2016[110]). Italy's tax revenue bases are weighted more heavily to social security contributions than OECD peers, imposing a heavy cost on hiring, whilst consumption, inheritance and wealth taxes are low (Figure 1.43). The incidence of personal income tax has risen on middle income earners (UPB, 2021[100]). The wealthiest households have enjoyed higher exemptions and lower marginal effective rates in inheritance taxes (OECD, 2021[111]) (OECD, 2018[112]).

**Figure 1.43. Italy's tax mix has low reliance on VAT and a higher reliance on social security contributions than peer countries**

Percentage of total tax revenue, 2019




Note: Due to data unavailability, the unweighted average of OECD countries excludes Costa Rica.
Source: OECD (2021), Tax Revenue (database).

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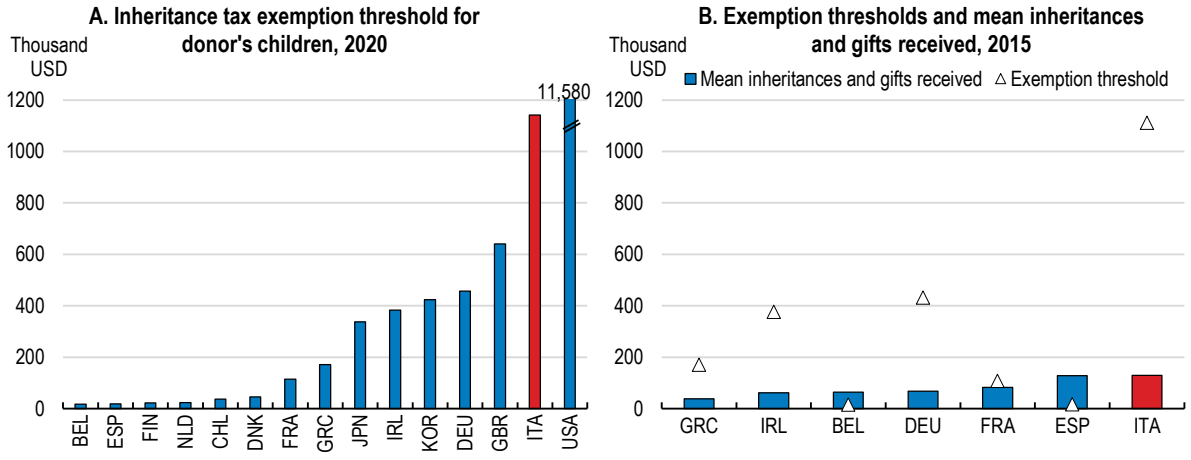
Tax reform should prioritise improving compliance and restructuring the composition of taxes in a more growth-friendly way. Consumption taxes tend to be more growth supporting than labour taxes (Arnold et al., 2011[109])– but a major obstacle to higher VAT revenues in Italy is compliance. The government estimates the difference between taxes due and taxes paid in 2018 stood at 5.9% of GDP (Ministry of Economics and Finance, 2020[113]). Around a third of this was due to a EUR 33.3 billion shortfall in VAT receipts. Accelerated digitalisation due to the COVID crisis could help clamp down on non-compliance, with the switch to electronic invoicing generating an additional EUR 2.1 billion in tax payments in 2018 (Ministry of Economics and Finance, 2020[113]). In addition, the VAT exemption threshold, which is amongst the highest of OECD countries (OECD, 2020[114]), could be reduced steadily over time. Advances in digital technologies, generous government support for technology investments and the drive towards reducing cash as a means of payment should reduce firms' compliance burden.

Inheritance taxes tend to have more limited effects on savings than other taxes levied on wealthy taxpayers, and positive effects on heirs' incentives to work and on donors' charitable giving (OECD, 2021[111]). Italy has a low inheritance tax take (Figure 1.43) and a relatively high tax exemption threshold (Figure 1.44) (OECD, 2021[111]). (Acciari and Morelli, 2021[115]) estimate that inheritance and gifts rose from 8.4% in 1995 to 15.1% in 2016, whilst inheritance tax receipts fell from 0.14% to 0.06% of total tax revenue. Whilst inheritance taxes might reduce the probability of family business successions, they might at the same time reduce risks of misallocating capital to less-skilled heirs (OECD, 2021[111]). Ireland provides recipients with a lifetime exemption for wealth transfers, which can promote greater equity. Strengthening

property tax revenues would complement inheritance taxes in raising revenues while limiting the drag on investment and activity. If immovable property values were more closely related to market values, as in past OECD recommendations, revenue and equity gains could be achieved (OECD, 2019[53]); (Cammeraat and Crivelli, 2020[116]). The marginal effective rates of property are well below other assets (Figure 1.45).

## Figure 1.44. Inheritance tax thresholds are low compared to OECD peers and average bequests

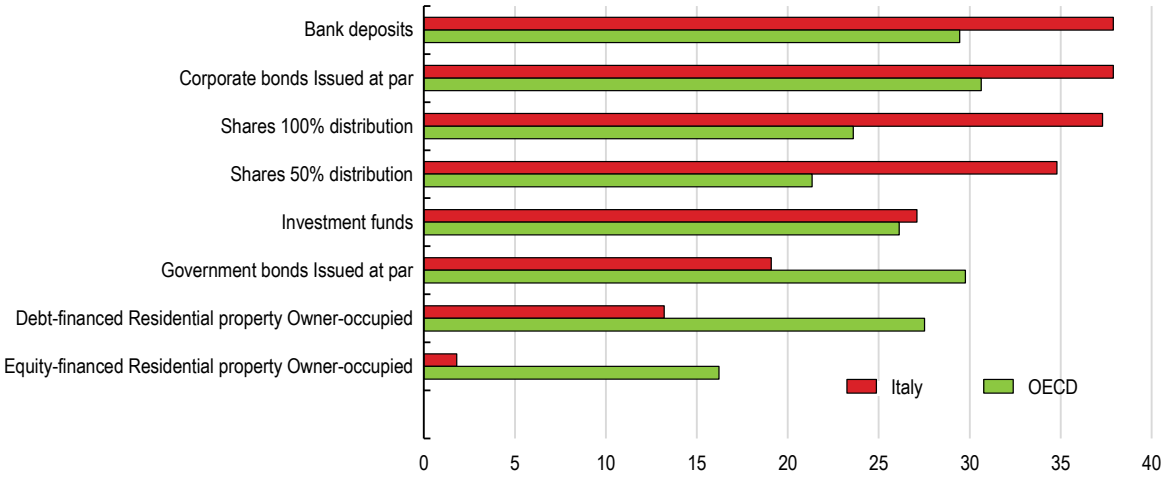



Note: Panel A: Tax exemption thresholds are reported in USD 2020. Children of the donor are exempt in Hungary, Lithuania, Poland, Portugal, Slovenia, Switzerland. This figure assumes that beneficiaries are adults and do not have a disability. Belgium: refers to the Brussels-Capital Region. Luxembourg: exemption thresholds depend on the value of the estate; children are exempt on the inheritance that they would be attributed under intestate laws, defined as a share of the estate, and are taxed above this amount. Switzerland: refers to the canton of Zurich. United Kingdom: assumes that the donor uses the residence nil-rate band, but not the transferable nil-rate band (which applies if the donor's spouse had already passed away and did not made full use of the tax-exemption threshold). Panel B: Mean inheritances and gift received 2015 data from the OECD Wealth Distribution Database, oe.cd/wealth.
Source: OECD (2021), Inheritance Taxation in OECD Countries, https://doi.org/10.1787/e2879a7d-en.

StatLink https://stat.link/dhbygp

## Figure 1.45. The marginal effective rates of property

Marginal effective tax rates by asset, 2016




Note: Due to data unavailability, the unweighted OECD average excludes Costa Rica.
Source: OECD (2018), Taxation of Household Savings.

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Tax expenditures have been an important tool to respond to COVID, with 69 new measures implemented (Ministero dell'Economia e delle Finanze, 2020[117]) but when the recovery is underway, they should be streamlined. Total tax expenditures in 2021 are expected to reach EUR 68.1 billion, and the government forecasts their cost to decline slightly to EUR 65.1 billion in 2023 (Senato della Repubblica and Camera dei Deputati, 2021[118]). In total, almost 180 tax expenditures apply to personal income taxes, representing an average annual amount of EUR 40 billion in tax expenditures between 2021 and 2023 (Bratta, 2021[119]). Their distributional impact must be evaluated, alongside assessing if the intended policy objectives are best achieved with a tax exemption or other policy tools. Higher public spending, better designed regulations, improved certainty or better coordinating across different government levels could be more effective, as discussed in Chapter 2. A simpler tax deduction regime may also make it easier to identify the EUR 31.7 billion in self-employed taxes that are estimated as due but not collected.

To support tax collections, an integrated data analytics platform across the highly fragmented Italian tax administration could support a more strategic approach to risk identification and enforcement. Repeated tax amnesties should be avoided as they undermine tax collection. Continued tax amnesties or tax-related forgiveness (such as the March 2021 cancelling of EUR 5 000 tax debts from 2000 – 2010) imposes a high cost on compliant taxpayers and reduces the incentives for compliance, for any given rate of penalty.

## Past OECD recommendations on tax policy

| Past recommendations | Actions taken since 2019 |
|---|---|
| **Lower the maximum threshold for cash payments.** | The expansion of e-invoicing has continued. The minimum cash threshold for payments was lowered to EUR 2 000 in July 2020 and will reach EUR 1 000 in January 2022. |
| **Continue to improve coordination across tax administration agencies** | Compulsory digital invoicing extended and advanced taxpayer profiling to raise compliance introduced in 2019<br>Introduction of the Cashless Plan in late 2020 to incentivize move away from cash to digital payments. |
| **Abolish tax expenditures that are poorly targeted or have outdated objectives.** | No progress. |
| **Continue to improve voluntary tax compliance and avoid repeated tax amnesties.** | Voluntary compliance assisted with auto-filled taxpayer forms and system of advance communications with taxpayers.<br>Tax amnesties were introduced in 2019. In 2021, those owing less than EUR 5 000 between 2000 and 2010 were granted amnesty.<br>Introduced a lottery to encourage use of cards, although this has now been replaced with incentives to reduce merchants' costs using point of sale devices. |

## Main findings and recommendations

| MAIN FINDINGS | RECOMMENDATIONS |
|---|---|
| **Policies for a stronger and more resilient recovery from COVID-19** | |
| The economy is expected to recover to 2019 levels by the first half of 2022. Withdrawing support for individuals and companies too early would lead to more bankruptcies, lower employment and higher poverty.<br>Government debt will reach nearly 160% of GDP in 2021 and population ageing will put pressure on public finance. | **Continue to provide fiscal support until the economic and employment recovery is well underway and make it increasingly targeted.**<br>**Announce in advance a medium-term fiscal plan to be implemented once the recovery is self-sustained to reduce the public debt to GDP ratio, taking into account the effects of an ageing population.** |
| Higher post-COVID insolvencies raise bank balance sheets risks. Although banking sector resilience has improved, non-performing loans remain high by OECD standards. The well-developed non-performing loan market can play a key role in reallocating credit in the post-COVID recovery.<br>The court and early warning system risk being overwhelmed as the economy emerges from the crisis. Reforms to continue to improve the efficiency of the civil justice system are being considered by Parliament. | **Introduce market-wide standards for valuing unlikely-to-pay loans.**<br>Continue to encourage banks to sell non-performing exposures through stringent supervision and guarantees, and incentivise securitisation.<br>**Increase resources for courts to better manage backlogs and improve the speed and efficiency of civil justice court procedures.**<br>Implement the civil justice reform bill.<br>Augment the early warning system with digitised procedures to reduce caseloads in the medium-term and encourage the use of out-of-court settlement procedures, including through financial incentives. |
| **Public finance reforms are needed to support faster growth and more and better jobs** | |
| Despite relatively high public spending, spending that can best support growth and well-being is low and has been falling.<br>Next Generation EU grant funds are significant at 13.5% of 2020 GDP. Slow historic absorption of EU funds is due to hurdles in designing, approving and implementing programmes. Procurement is slow, competition limited and capacity varies widely. | **Improve the composition of public spending to promote growth and job creation.**<br>Improve coordination across agencies implementing public investment projects to raise disbursement levels.<br>**Consolidate smaller agencies' public procurement activities into higher capacity bodies.** |
| Ageing- and interest-related expenditure pressures are high and set to rise in the longer term. The government has committed to returning to pre-COVID debt levels. | **Contain pension spending by allowing the early retirement scheme (Quota 100) and the so-called women's option to expire in December 2021, and immediately re-establish the link between life expectancy and retirement age.** |
| Tax revenue shares from labour are higher and VAT and inheritance tax revenues lower than OECD peers. The tax wedge on labour is high, but has been lowered with income tax relief, family allowance reforms and temporary social security contribution cuts. The government intends to reform the tax system.<br>Labour force participation fell sharply in 2020 and remains particularly low for women, especially those with children. | **Implement a holistic tax reform that reduces complexity and permanently lowers taxes on labour, financed through improved compliance, lower tax expenditures and higher taxes on immovable property and inheritance.**<br>Lower the marginal effective tax rates for secondary earners.<br>**Improve access to quality childcare across all regions** |
| The recovery plan allocates 6.5% of GDP for green projects. Carbon tax pricing continues to favour diesel and industry. | **Set a long-term plan to harmonise and gradually raise carbon prices, with policies and time to ease social and competitiveness transition costs.** |
| SMEs do not access training funds enough. Current resources and structures will not reverse low adult learning rates and digital skills levels. | **Increase access to adult skills attainment, with improved Training Fund application processes and better coordinated public employment services.** |
| **Raise investment and productivity** | |
| Government incentives, including the recent temporary increase in the allowance for corporate equity, only partially offset regulatory obstacles to higher investment. Services productivity lags manufacturers, and firm growth levels lag OECD peers. Regulations are often anti-competitive. | **Reduce regulatory barriers to entering professional services, including replacing licensing systems with less distortionary certification schemes.**<br>Introduce a national productivity board to identify and communicate the costs and benefits of reforms, and build a national consensus<br>Ensure that the tax allowance for corporate equity is sufficiently predictable and generous to reduce the debt-equity bias. |
| Penalties for engaging in corrupt activities increased in 2019. | **Improve oversight and accountability of elected officials and magistrates to improve the quality of policies and build public trust**. |

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# 2 Strengthening Italy's public sector effectiveness

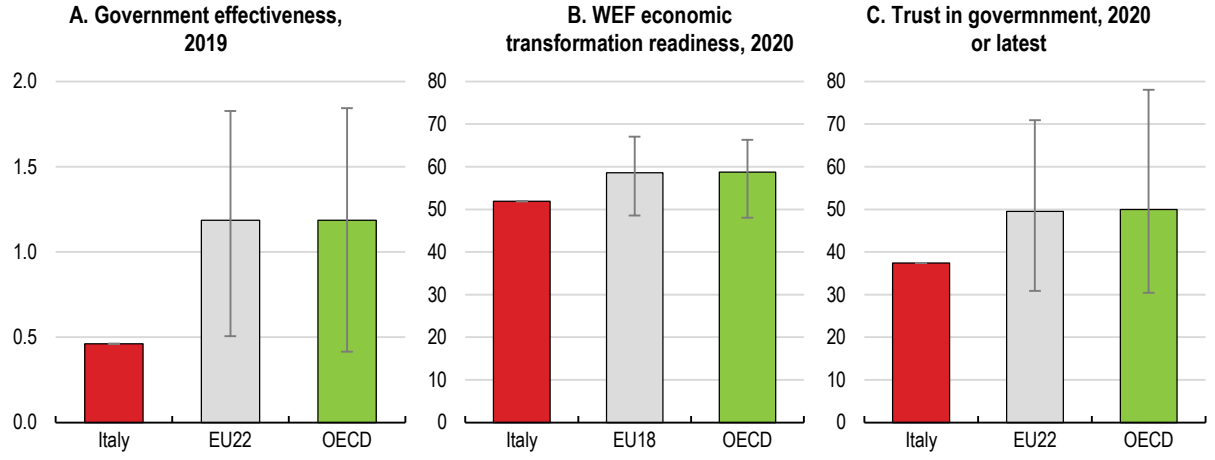
Raising the effectiveness of Italy's public sector is more urgent than ever. It will be key to revive investment and productivity and improve access to quality public services for the most vulnerable. The quality of public goods and services is variable, weakening Italy's resilience to shocks like the COVID-19 crisis and the ability to secure a more sustained and inclusive recovery. Excessive regulations and their onerous enforcement add to businesses' operating costs. Trust in public institutions and public service delivery is one of the lowest across OECD countries. In the coming years Italy will have a unique opportunity to improve the effectiveness of its public sector, through the Recovery and Resilience Plan, the renewal of the public sector workforce, and the potential of technological innovations. This chapter proposes options to strengthen public sector effectiveness by looking at *what* interventions the public sector makes in the economy, *how* the public sector mobilises its workforce, procures goods and services, and leverages the benefits of digitalisation, and *who* acts across levels of government and between the public and private sector. It concludes that recruiting and developing the necessary skills in the workforce, monitoring performance, as well as encouraging coordination will be key to better budget allocations, regulatory environment, and delivering quality public goods and services.

## A more effective public sector is essential to address Italy's challenges

The COVID-19 crisis has added urgency to the long-recognised need for Italy to raise the effectiveness of its public sector. The quality of many public services that will be especially important for the post-COVID recovery, such as education and training, is low. Many issues are long-standing, such as the burden on businesses from regulations and their enforcement. Uneven administrative capacity across different regions holds back recent measures to improve resilience and inclusiveness, such as the rollout of a national guaranteed minimum income tied to job search, reskilling and social support. Public servants report that bureaucratic processes have been a rising constraint to taking decisions and actions. Investors and households perceive public institutions' integrity and effectiveness to be among the weakest across OECD countries, and households report lower satisfaction than in other OECD countries in many public services including education, security and crime prevention, and environmental protection (Figure 2.1) (Murtin et al., 2018[1]).

Italy has an unusual opportunity in the coming years to address these challenges. After the constraints of Italy's narrow fiscal path of the past decade, he Resilience and Recovery Plan provides policy space to invest in a more effective public sector. Italy's public servants are ageing and the numbers retiring will accelerate over coming years, amplifying skills gaps and adding urgency to transferring their experience to a new generation of public servants. Digital and other technological innovations, and the country's growing Internet connectivity, can revolutionise the public sector's accessibility, responsiveness and functioning. By seizing these opportunities, Italy can make its public administration more conducive of broader and more resilient growth.

### Figure 2.1. Perceptions of the public sector's effectiveness lag behind other OECD countries




Note: Whiskers indicate the first and last deciles of OECD and of EU22 countries. OECD and EU22 bars show the unweighted average of countries that are members of the OECD and of both the European Union and the OECD respectively. Panel A: This governance indicator captures perceptions of the quality of public services, of the civil service and the degree of its independence from political pressures, and of policy formulation and implementation, and the credibility of the government's commitment to such policies; Panel B: This indicator is a simple average of indicators for governance, long-term vision and service delivery of public institutions; infrastructure to accelerate energy transition and access ICT; progressive and corporate taxation; education and skills investment for future jobs; labour regulation and social protection for the evolving labour force; care for the elderly, children and health; financing of long-term investments; competition policy; 'markets of tomorrow' including for public-private collaboration; research and innovation; incentives for firms for diversity, equity and inclusion; Colombia, Costa Rica, Iceland, Latvia, Lithuania, Luxembourg, Norway and Slovenia are not covered; Panel C: Trust in government refers to the share of survey respondents who report having confidence in the national government.
Source: World Bank (2020), Worldwide Governance Indicators (database); World Economic Forum (2021), The Global Competitiveness Report 2020; OECD (2021), How's Life: Well-being (database). Murtin et al (2018[1]) present further information and analysis regarding trust in government indicators.

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Italy has undertaken extensive reforms over several decades to improve the public sector's effectiveness. Measures in the National Recovery and Resilience Plan (NRRP, summarised in Box 2.1) and in the 2020 Simplification Decree are the latest of a long series of far-reaching measures intended to streamline processes, hasten administrative action and improve public service delivery. Past reforms have changed structures and modernised rules and regulations, and improved how they are prepared and approved. Reforms have sought to improve the budget process and fiscal sustainability, to raise the cost effectiveness and quality of spending, and to bring service providers closer to users while ensuring more consistent quality across Italy. Some reform efforts have implemented innovative approaches and placed Italy ahead of many other OECD countries – the needs-based funding allocations to subnational governments and the development of the central procurement agency, Consip, are examples. Recent progress in digitalising parts of the public administration have created an architecture that is particularly well adapted to the varied capacities across Italy's multi-layered government.

However, in some domains, improvements in practices and outcomes have often fallen short of the ambitions of past reform efforts. Deep administrative reforms take multiple years to be legislated and for this legislation to be fully implemented. During this time, specific measures often need adjustment based on experiences and feedback. In Italy, reforms that initially had broad, bipartisan support became politically contentious, allowing entrenched interests to block reforms and leading to reversals following changes in government. Meanwhile budgetary resources initially available to support Italy's reforms became scarcer as the economic cycle and fiscal objectives evolved (Bassanini, 2010[2]; Boeri and Rizzo, 2020[3]; Cavatorto and La Spina, 2020[4]; OECD, 2010[5]; OECD, 2019[6]; OECD, 2013[7]; OECD, 2015[8]). As a result, the budget process still does not promote funding for the most growth-enhancing spending areas. Burdensome processes and the incentives faced by public officials' slow administrative action. Narrow recruitment strategies, slow staff renewal and limited training have amplified skill gaps. Much of the reforms intended to improve procurement quality have been reversed. Varied capacity and overlapping responsibilities continue to limit the effectiveness of Italy's multiple layers of government. Box 2.2 presents some attributes of OECD countries' successful public sector reform programmes.

This chapter identifies priorities for Italy to improve the effectiveness of its public administration, by focusing on the key issues related to three central questions: *what* is the scope of the public sector intervention in the economy, either directly through budget allocation or through regulations; *how* the public service delivers, through its workforce, procurement processes and digitalisation; and *who* across Italy's multi-layered government and between public and private enterprises delivers these goods and services. It applies these crosscutting questions to the delivery of active labour market programmes, early childhood education and care, and public investment by local authorities, as these services are symptomatic of many of Italy's public sector challenges, and they will contribute considerably to Italy achieving a sustained recovery and the implementation of the government's National Recovery and Resilience Plan. Across these three questions, common priorities are recruiting and developing the necessary skills, monitoring performance, and encouraging coordination.

### Box 2.1. The Resilience and Recovery Plan's focus on strengthening public sector effectiveness

Italy's National Recovery and Resilience Plan (NRRP) lays out how it will use the Next Generation EU facility and the accompanying structural reforms over the period 2021-26 to resume sustainable and lasting economic growth. Central to this strategy is modernisation of the public administration, and in this area the NRRP extends or builds on many of the measures to ease or accelerate administrative processes provided by the July 2020 'Simplification Decree'. Many of the details of the NRRP's measures will be developed as implementing laws are drafted.

Strengthening the public sector's human resources and raising its dynamism is one priority. The NRRP finances the hiring of thousands of new public officials to fill capacity gaps across the public administration, especially in municipalities and the South. Reforms to how candidates are selected are intended to better attract applicants with exceptional skills or diverse career trajectories, rather than knowledge of administrative law. A competency framework will take a stronger role in guiding the public administration's recruitment, mobility and training priorities.

Another priority is to simplify laws and regulations. Reforms to public administrative law and regulation, public procurement, and competition are the focus of the NRRP, while improving the effectiveness of regulations at preventing fraud or corruption. Revising norms and procedures across all levels of government, expanding the 'silence is consent' rule, and improving interoperability and access to data across administrations are intended to simplify, hasten and rationalise public administrative processes, especially as they apply to the implementation of the other elements of the NRRP. Introducing benchmarking, outcome performance monitoring, and incentives are intended to accelerate processes, for example by identifying where performance lags. Changed accounting and public financial management systems are intended to improve tracking disbursements.

The NRRP seeks to advance the public administration's modernisation by accelerating its digitalisation. On the technical side, the NRRP focuses on developing the 'cloud' and strengthening cybersecurity. It will allow administrations to choose to integrate into the public national cloud infrastructure ('National Strategic Pole') or to use commercial cloud services. It strengthens the 'once only' principle which will require improved interoperability, alongside strengthening the digital identity, and expanding services provided to citizens. It streamlines processes for procuring technology. Accompanying these technical developments, the NRRP prioritises building public officials' competencies to use the potential of digital technologies.

Source: (Presidency of the Council of Ministers, 2021[9])

### Box 2.2. Some strategies for successful public sector reforms in OECD countries

OECD countries have undertaken waves of public sector reforms over recent decades, towards improving the quality of the goods and services delivered by the public sector while restraining its costs. The focus of OECD countries' reforms have evolved through these waves. From approximately the late 1980s through to the 2000s, English-speaking countries including Australia, New Zealand and the United Kingdom pioneered reforms to instil market-type competition within the public sector, towards building a focus on performance and efficiency. Implementation challenges and ongoing demand for higher quality public services have more recently led some of these reforms to be reversed, with a new focus on building the public sector's internal capacity to deliver, and to assess performance against a broader range of objectives. Reforms in other OECD countries have often followed these trends, adjusting for national institutional, budgetary and service delivery challenges.

Italy's waves of major public sector reforms since the 1990s have broadly followed this pattern. Ambitious reforms in Italy have also encountered considerable implementation challenges, with changes on the ground falling short of reformers' aspirations in some key areas, including many of those highlighted in this chapter. The policy reform programme laid out in the National Recovery and Resilience Plan (NRRP), building on many of the measures in the 2020 Simplification Decree and the multi-year Simplification Agenda, represent a renewed focus on raising the public sector's contribution to Italy's sustained growth and well-being.

Some lessons from OECD countries' experiences of reforms that can contribute to Italy's latest reform agenda include:

- Strong leadership: Successful reform programmes have strong political and managerial leadership. This leadership includes the management within the public service, who are key for implementation. Technical experts are central to advise this political and managerial leadership, however reform programmes led by technical experts have been less successful.
- Building innovation, testing and adaptation into the reform programme. Reform involves innovation, which may invariably need adaptation. Successful reform programmes include measures to test new approaches in some parts of the public sector before being rolled out more broadly. Countries with multi-layered government such as Italy may test some policy reforms in some representative regions, before undergoing the cost and disruption of rolling out these measures nationally.
- Invest in capacity to implement reforms: Successful public sector reform programmes have proactively trained managers to implement change. This disseminates understanding of the goals of reforms. Repeated training sessions allow managers to share experiences and strategies, and provide feedback on the reforms. For example, Finland found that repeated training sessions helped renew managers' motivation to pursue ongoing reforms, while providing feedback to adjust the reform programmes.
- Reforms are a long-term process. Building broad, community-wide consensus around reform priorities can sustain complex, multi-stage reforms through changes in senior personnel or the political cycle. Independent agencies that develop the reform agenda and communicate its benefits, such as the productivity boards discussed in Chapter 1, can help build and sustain this consensus.

Source: (Huerta Melchor, 2008[10]) (Shaw and Richet, 2012[11]) (Cavatorto and La Spina, 2020[4]); (Halligan, 2013[12])

## Revisiting what interventions the public sector makes in the economy

Fundamental to the Italian public sector's effectiveness are its choices about what goods and services it funds and what it regulates. Current choices are often a legacy of past decisions, due for example to the incremental budget process and to the stock of past regulations, rather than reflecting the areas that are now the highest priorities for public action or where the public sector is most effective. Moving from these legacy can be challenging, but is an essential part of broader reforms to improve the public sector's effectiveness.

### *Reforming budget processes to reallocate funding to support growth*

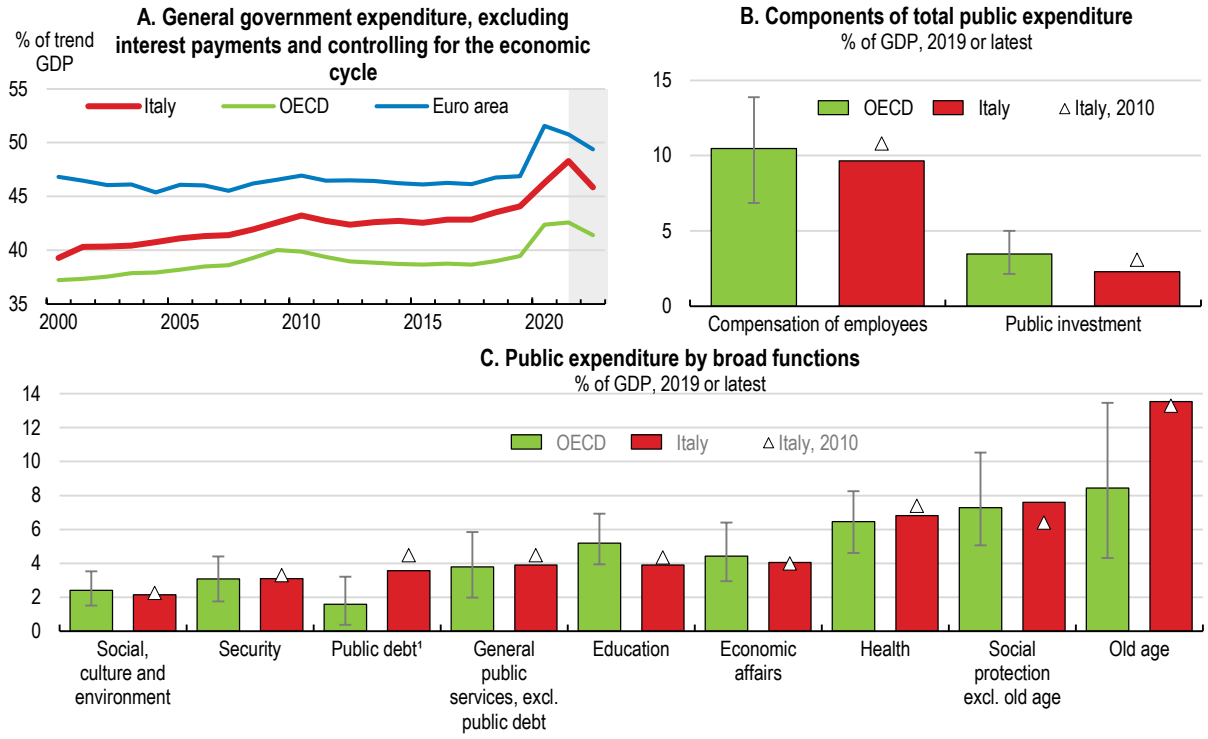
#### *Italy's growth-enhancing spending is low, despite rising spending overall*

Italy's public spending is high and has trended higher over many years (Figure 2.2, Panel A). At 48.6% of GDP in 2019, public spending was the seventh highest of OECD countries, having risen from the twelfth highest in 2000. High and rising old age spending is the main driver (Figure 2.2, Panel C). High old age spending primarily reflects Italy's relatively generous public pension system and relatively large number of retirees relative to active workers. It contrasts with many other OECD countries' contributory private or occupational pensions which do not appear as public expenditure. Italy spends near the OECD average on non-pension social transfers. High debt spending reflects Italy's large stock of public debt. Spending on discretionary public goods and services, especially those that contribute most directly to productivity and employment, is less than in most OECD countries and has fallen (Figure 2.2, Panels B and C). Spending on education, public investment, and research and development is the third lowest across OECD countries, at 7.2% of GDP in 2019, and 0.6% of GDP lower than in 2013.

Italy's public spending achieves a mixed performance across economic and well-being outcomes after accounting for the level of spending relative to other OECD countries (Figure 2.2, Panel C, and Figure 2.3) (Lorenzani and Reitano, 2015[13]). Poverty rates are high among families and children, as high overall social spending is largely directed to the public pension system's relatively generous transfers to elderly households, and other areas of social spending are less effective. Education outcomes, as indicated by international tests of teenagers or of adults' skills such as PIAAC and PISA, are below the OECD average, in part reflecting relatively modest education spending. Infrastructure quality on some benchmarks lags other OECD countries, consistent with the relatively low public investment especially since the global financial crisis. In contrast, health outcomes, after accounting for differences in diet and living conditions, are well ahead of the OECD average while spending is only slightly above the average. Overall, this picture suggests supporting stronger and more inclusive growth requires reallocating some spending alongside improving the effectiveness of existing spending.

Reallocating public spending can free resources that have limited impact and boost resources for priorities. Italy's budget process, summarised in Box 2.3, could better reallocate spending by clearly establishing and communicating ministries' expenditure ceilings early in the budget cycle, and by developing specialised capacity within ministries to coordinate, assess and prioritise spending plans. Better integrating performance indicators and regular spending reviews into the budget process would improve how the public sector allocates its scarce resources. Other OECD countries are finding these to be fruitful especially when are coordinated at the centre of government and have strong line ministry involvement (Box 2.4).

## Figure 2.2. Italy's pension and debt servicing costs are higher than in most other OECD countries, while growth-enhancing spending is lower




Note 1. Public debt expenditure includes interest payments and outlays for underwriting and floating government loans.
Note 2: Panels B and C: The figure shows public expenditure by broad function. The OECD averages are not weighted and do not include Canada, Mexico, New Zealand and Turkey, while the whiskers show the range between the first and last (unweighted) decile of the OECD countries.
Source: OECD (2021), OECD Economic Outlook (database); OECD (2021), National Accounts Statistics (database).

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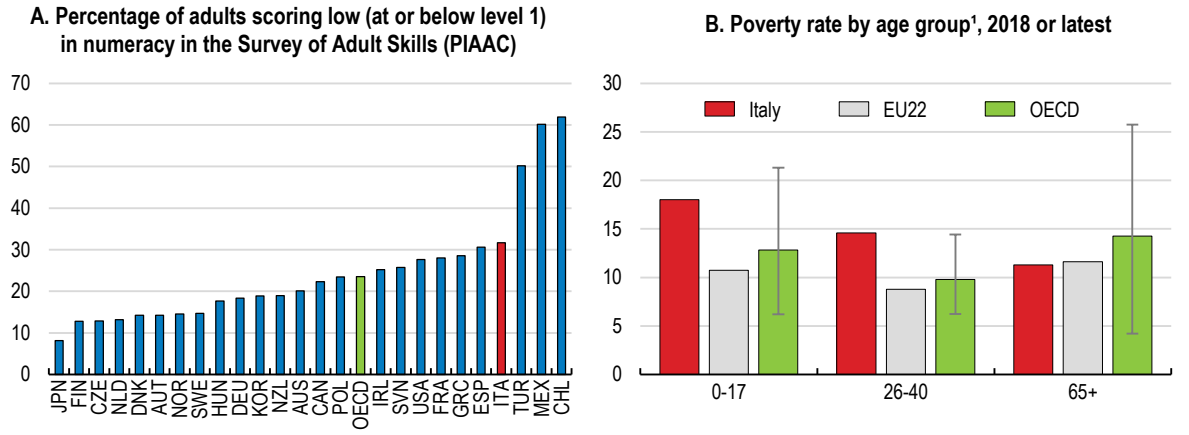
## Figure 2.3. Outcomes from Italy's public spending lag behind in some areas, such as building skills and reducing poverty rates among children and families




Note 1: Whiskers indicate range of OECD countries between the first and the last decile.
Note 2. At 50 % of median equivalised income after taxes and transfers.
Source: OECD (2019), Skills Matter Additional results from the survey of Adult skills, Annex A; OECD (2021) Income Distribution Database (IDD).

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### Box 2.3. Italy's central government budget process

The central government's annual budget process starts by the Ministry of Economy and Finance (MEF) defining the aggregate expenditure ceiling. Ministries then submit updates to their baseline expenditures for existing programmes and requests for additional funding to MEF, although they do this without referring to the overall expenditure ceiling or to ministry-level ceilings. Ministries often do not consolidate and prioritise the requests from their different agencies. These generally include limited information on performance outcomes. The MEF then hears presentations from line ministry delegations defending their requests. Following revised projections of total resources, the Prime Minister and the Minister of Economy and Finance agree on budget allocations, including changes in ministries' programmes or savings targets, and these decisions are communicated bilaterally to ministries. In the budget presented to parliament, savings may be presented as across-the-board targets, but ministries may nominate specific programmes to cut.

Source: (Blöndal, von Trapp and Hammer, 2016[14])

### *Using performance indicators well to improve spending decisions*

Budget processes in Italy can make more use of performance information (Figure 2.4), by better focusing existing indicators and integrating performance more deeply into the budget process. This would bring Italy's budget process into line with practices other OECD countries have found effective (Box 2.4 and Box 2.5). Reforms in the late 1990s and in 2009 sought to streamline the budget structure and information presented to parliament, while introducing output and outcome indicators. These are notionally linked to the National Reform Programme and the well-being framework, which is recognised as good practice (OECD, 2015[15]); (OECD, 2019[16]). However, the voluminous information has not been well organised or comparable over time or across entities. Many indicators report administrative activities rather than the goods or services delivered or their benefits. They have had little influence in budget allocation or other management decisions (Blöndal, von Trapp and Hammer, 2016[14]). Meanwhile, since 2016 Italy has developed gender budgeting and required budget documents to report on well-being objectives and indicators, including environmental sustainability, economic equality, health and education. These are presented in parallel to the budget, rather than integrated into the budget process. Properly integrating these indicators into budget decision-making has been a challenge for other countries as it is in Italy (Box 2.5).

Consistently integrating succinct and pertinent performance information into the budget process would improve the decisions around line ministries' spending proposals and budget allocations, and would support the spending reviews discussed below (Bonomi Savignon, Costumato and Marchese, 2019[17]). The OECD's *2015 Recommendation on Budgetary Governance* presents good practices for line ministries to redevelop their performance indicators. Amidst the tight timeframes and political pressures of preparing and approving budgets, performance indicators are most likely to influence decisions if they are highly pertinent, well-understood and trusted. Effective performance indicated are limited in number, are relevant to each policy programme or area, are clear and easily understood, and allow for tracking of results against targets and benchmarks. Linking performance indicators to the National Resilience and Recovery Plan would help in realising the Plan's objectives.

### Box 2.4. Budgeting for performance: countries' experience in informing budget decisions with performance indicators

For decades countries across the OECD have sought to shift their budget process from a focus on line-item inputs to one that uses performance information in allocating resources across different public goods and services. Performance budgeting entails the systematic use of performance information to inform budget decisions. It emerged to help shift budget decisions towards the outcomes achieved by public goods and services and away from incremental adjustments to allocations to ever-growing numbers of budget line items.

At its core, performance budgeting informs or even drives the allocation of resources. In addition, it can support performance evaluation and management and spending reviews, and contribute to citizens' engagement in the budget. It can adapt to other objectives, such as gender, well-being or environment. Countries' performance budgeting systems are constantly evolving, in part reflecting the difficulty of developing a system that satisfies all users and needs. OECD analysis identifies four types of performance budgeting:

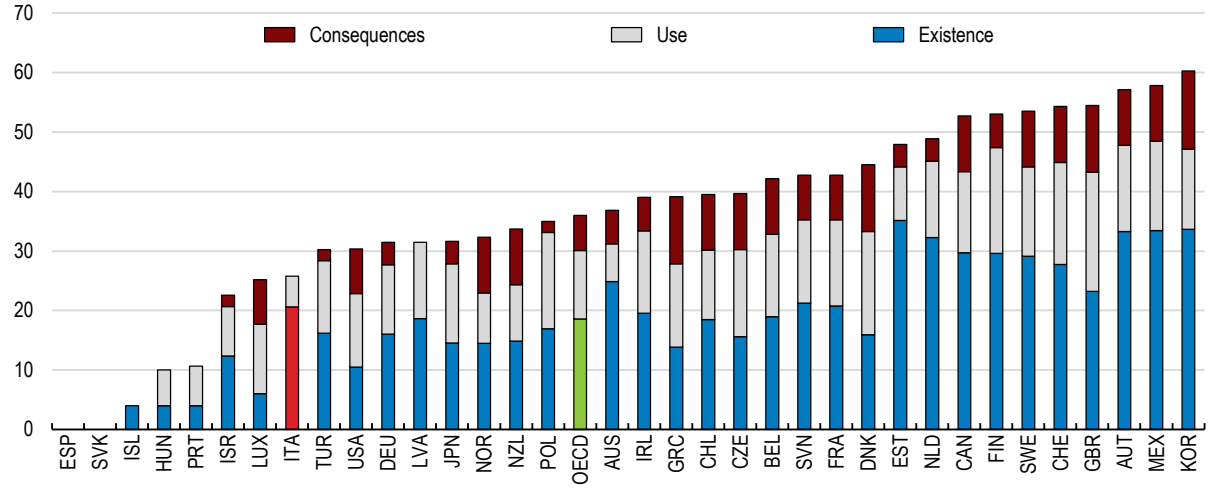
1. Presentational Performance Budgeting: This shows outputs, outcomes and performance indicators separately from the main budget document. This contributes to transparency about the government's policy priorities and is easy to implement. Separating performance information from budget allocations limits the influence of performance on spending. Italy's performance budgeting is in this group.
2. Performance-Informed Budgeting: This more ambitious approach includes performance metrics within the budget document, and structures the budget on the basis of programmes. It is appropriate for governments that want to achieve more ambitious re-prioritisation of expenditure linked to performance and to devolve more budget control to programme managers. It is the approach adopted by a plurality of OECD countries, including Austria, France, Japan, the Netherlands, New Zealand and Sweden.
3. Managerial Performance Budgeting: The focus is on managerial impacts and changes in organisational behaviour, achieved through combined use of budget and related performance information. Canada, Finland, Mexico and the United Kingdom are among the smaller number of OECD countries with this approach.
4. Direct Performance Budgeting: This provides a direct link between results and resources, often via a contract, with budget consequences for over- or under-achieving objectives. While no OECD country uses direct performance budgeting as a general approach, some OECD countries use this approach for funding specific aspects of a limited range of public services, such as in health or education.

Source: (Keller, 2018[18]); (OECD, 2015[15]); (OECD, 2019[16]); (Schick, 2014[19]); (Cavatorto and La Spina, 2020[4])

Integrating useful performance indicators into the budget process would be a step towards developing a broader performance culture across the public sector. Ensuring that there are sufficient resources for assessing performance, that information is accurate, timely and accessible, and that public servants have the relevant skills and tools to use performance information would support this. Senior political support is essential throughout this process. The budget's 'mission' structure, introduced in the 2009 reforms, can frame these performance indicators and develop the link with the national development objectives. Istat can be a valuable support for ministries in developing such succulent sets of indicators, given Istat's innovative approaches to measuring hard-to-quantify outputs and outcomes (OECD, 2019[16]). Limiting the number of indicators is essential if they are to be useable, as the United Kingdom's or the European Commission's experience with developing and then streamlining hundreds of performance indicators demonstrate (Noman, 2008[20]; Downes, Moretti and Nicol, 2017[21]).

**Figure 2.4. Italy has developed a large number of performance indicators, but they have little influence on what public goods and services the budget funds**

OECD Performance budgeting index, 2016




Note: The 2016 Performance budgeting index is a composite index built up using information on 10 variables. These variables cover the 'existence' in terms of availability and type of performance information developed, 'use' of the information for monitoring and reporting on results, and the 'consequences' in terms of whether and how performance information is used in the conduct of budget negotiations. The OECD average is an unweighted average of available OECD countries. Spain and Slovakia are assessed to be 0.
Source: 2016 OECD Performance Budgeting Survey.

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Developing and using performance indicators will require developing capacity in line ministries. Currently line ministries do not have many of the budget preparation and analysis capacities typically found in line ministries in other OECD countries. Instead, in Italy, the Ministry of Economy and Finance's (MEF) budget office, the Ragioneria Generale della Stato, has an office in each line ministry that provides functions such as consolidating and transmitting each ministry's budget requests in the annual budget cycle to the MEF (Box 2.3). Developing budget preparation and performance analysis capacity in dedicated units in each line ministry would strengthen each ministry's ability to analyse its spending relative to performance and policy goals, and to prioritise and evaluate the ministry's different proposals and activities (Blöndal, von Trapp and Hammer, 2016[14]). Each ministry can use its spending and performance analysis, drawing on its performance indicators, to help prioritise its agencies' budget submissions. Once the capacity and processes are in place, performance indicators can be integrated into the internal budget preparation process, and to strengthen the quality of the ministry's bilateral budget discussions with the MEF. Performance indicators have become integral to discussions between central finance agencies and line ministries in the United Kingdom, New Zealand or Canada. These countries have found that rewarding agencies and ministries that use performance indicators effectively during the budget negotiation process through resource allocation decisions encourages greater use of performance indicators (OECD, 2018[22]). Alongside central government bodies, developing robust and useable performance information and analysis capacity also benefits subnational governments' budgeting and resource allocation.

### Box 2.5. Integrating well-being into budget decision-making: the example of New Zealand

OECD countries have been integrating well-being indicators into their regular budget processes in recent years, with a varying range of indicators and approaches. Along with Italy's 2015 Budget Law reforms, legislation introduced in recent years in France, Scotland, Wales, require the government to report on well-being indicators as part of their decision making, while Canada plans to develop such mechanisms. However often this information is generally yet to substantially influence resource allocation.

New Zealand is among the OECD countries to have furthest integrated well-being indicators into its budget process. The Treasury (Finance Ministry) uses available well-being evidence to set budget priorities, encourage collaboration across ministries and assesses proposals for the use of additional budget resources (around 4% of total core public spending). Recent amendments to the Public Finance Act require the annual budget to report progress against well-being objectives.

Developing accountability mechanisms can help ensure that legislative requirements to report on well-being are backed by real change in civil service and Parliamentary practices, the development of robust evidence, and of the capacity of public officials to apply the indicators. New Zealand and Wales have developed the role of dedicated commissioners to pursue the integration of these indicators into government decision making processes.

Source: (OECD, 2019[23])

### *Spending reviews to reallocate spending*

Spending reviews complement the development of performance indicators in helping governments reallocate substantial shares of spending and improving public spending effectiveness. Spending reviews have helped Italy break from the regular budgeting process with its incremental reallocations of spending (Schick, 2014[19]). Italy's central government has conducted multiple spending reviews since the global financial crisis, and, in 2018, it made them a regular exercise. These reviews have helped the government achieve savings goals, but have not been able to protect allocation to spending that best supports growth and inclusiveness (OECD, 2017[24]). The National Plan for Recovery and Resilience provides for strengthened spending reviews.

Italy's spending reviews have followed a mix of models. Some were led by external experts, or from the Prime Minister's office, and their focus for finding savings has varied between different sectors and levels of government. Central agencies, usually the Ministry of Economy and Finance, have coordinated Italy's spending reviews. Italy could adopt the approach of other OECD countries in establishing dedicated units in the central finance agencies that support and collaborate with agencies in conducting the reviews, or in developing a specialised, high capacity independent agency such as a fiscal council or productivity board may to conduct spending reviews (discussed in Box 1.8). In conjunction with this central coordination, most OECD countries are now aiming to develop line ministries' capacity and collaboration in spending reviews, finding this improves the quality of analysis, the targeting of spending adjustments, and ministries' willingness to implement reviews' conclusions (Noman, 2008[20]). If Italy were to establish dedicated budget units in line ministries, these would become central for such work.

Spending reviews contribute most to improving spending quality when they are framed by a medium-term perspective on fiscal and policy objectives. Pursuing a strong medium-term expenditure framework, as recommended in the last *Economic Survey* of Italy (OECD, 2019[6]), would allow a more systematic approach to resource reallocation that accounts for priorities and results that only emerge over several years. A medium-term expenditure framework, setting out expenditure priorities and hard budget constraints against which sector plans can be developed and refined over, for example, a three-year

horizon, would complement the policy goals laid out in the National Recovery and Resilience Plan. Pursuing a medium-term perspective in the overall budget framework would help future spending reviews to target savings and reallocations and help Italy avoid the sort of across-the-board cuts and weakening in the public administration that followed the spending reviews of the early 2010s (European Commission, 2020[25]).

Subnational governments have had limited ongoing roles in Italy's spending reviews, as is the case in other OECD countries, despite their large share of public spending and despite being the focus of some past spending reviews. Fragmented data and limited analytical tools and capacity, especially in lagging regions, restrict subnational governments' ability to participate in spending reviews. They may benefit from the support of a central agency. Spain's Independent Authority for Fiscal Responsibility is an example of a central a government institution that is increasingly providing such support (Box 2.6). It first developed datasets and analytical tools, and built mechanisms to coordinate and engage across multiple layers of government. These provide foundations to make more influential recommendations about regional governments' spending allocations and spending quality.

### Box 2.6. Supporting subnational governments' spending analysis: the example of Spain's Independent Authority for Fiscal Responsibility, AIReF

Spain, similarly to Italy, is a decentralised country with multiple layers of governments involved in allocating and executing public spending. Like Italy, practices of evaluating spending effectiveness are relatively recent, and regions especially have limited resources to evaluate public policies. In 2013, Spain established the Independent Authority for Fiscal Responsibility, AIReF, to monitor and evaluate public spending.

The breadth of AIReF's mandate regarding subnational governments' spending is unique among OECD countries' independent fiscal institutions. AIReF is responsible for monitoring subnational governments' full fiscal policy cycle and almost all of its reports include a subnational dimension. It has built a role as a 'broker' in national-subnational government fiscal coordination bodies. In addition, subnational governments may request AIReF study particular topics, such as on restructuring a region's public sector, or challenges in infrastructure investment. Stakeholders report that AIReF has helped subnational governments better comply with fiscal rules and improved budget execution, and that its benchmarking of regions and municipalities is well-received.

As between half and three-quarters of AIReF's monitoring and analysis activities relate to subnational finances, it has required considerably more technically skilled staff than other countries' independent fiscal institutions that only analyse central government fiscal policy. To fill this role, AIReF has put more resources into building datasets and models for regional and, increasingly, local government finances. Alongside building technical capacity and datasets, it has found that building strong coordination systems to be essential. Engaging and gathering information from different levels of government has often involved repeated multilateral meetings. Such coordination mechanisms have helped AIReF convince unreceptive bodies to engage in spending reviews.

Regional governments' implementation of AIReF's recommendations has been patchy, and it may be too early to identify an overall impact on subnational governments' spending quality. A review suggested that requiring governments to explain why they do not comply with selected recommendations would improve compliance. The review suggested that presenting analysis more accessibly and non-technically may improve engagement and take-up.

Source: (Bova, Ercoli and Bosch, 2020[26]); (Von Trapp et al., 2017[27]); (OECD, 2021[28])

### *Making the regulatory system more efficient, more effective, and less burdensome*

*Italy's stock of regulations and their enforcement weigh on private and public sector activity*

Designing effectively the government's regulatory interventions in the economy is an essential government function. Well-designed regulations can improve wellbeing, protect against vested interests, raise competiveness and productivity, and limit harm to the environment or health. Well-designed regulations balance risks with compliance burdens. Countries with lower regulatory burdens and greater confidence in regulators tended to show greater resilience to the social and economic impacts of the COVID-19 (Blanc, Kauffman and Amaral, 2020[29]).

Italy's regulation of firms and individuals can impose heavy burdens on some sectors and activities (see Chapter 1). Italy regulates particularly heavily the establishment and operations of small and medium enterprises (SMEs), services and especially professional services, retailers, and the collaborative economy (Figure 2.5, Panel C). Complex processes, fragmented responsibilities and bottlenecks in approvals amplify regulatory burdens. In 2019, administrative processes were estimated to take small and medium-sized enterprises 550 hours per year, costing 4% of SMEs' annual turnover and 2% of large enterprises' turnover in 2019 (The European House - Ambrosetti, 2019[30]), and cross-country assessments suggest many regulatory processes are relatively long in Italy. The administrative burden of complying with regulations tends to be greater in lagging regions, dragging firms' productivity (Deloitte, 2021[31]; Fadic, Garda and Pisu, 2019[32]). Yet these burdens do not bring better outcomes, with many aspects of working or environmental conditions poorer in Italy than in many other OECD countries with lower regulatory burdens.

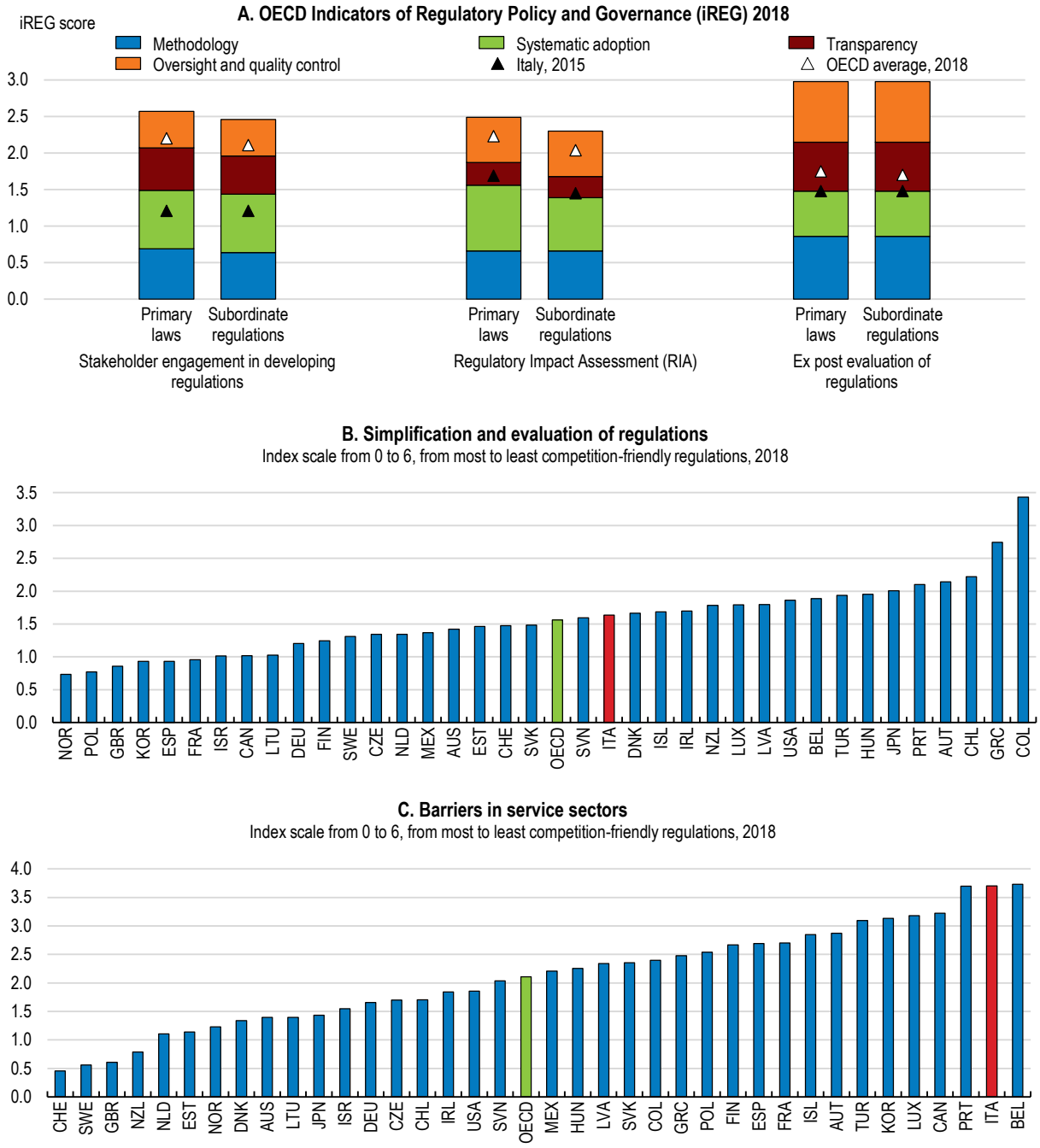
Regulatory measures to combat corruption risks have been particularly challenging. They can create a vicious circle. Complex or more stringent regulations and aggressive enforcement intended to discourage nefarious activities may contribute to corruption by reducing transparency and creating scope for discretionary enforcement, while adding costs to firms and weakening confidence. More complex regulation slows the justice system, by leading to more cases that run for longer (OECD, 2013[33]). Raising the justice system's responsiveness is another priority for improving Italy's business environment, discussed in Chapter 1.

In Italy, while regulation laid out by legislation generally follows good practices, the implementing rules, processes, procedures, and the approaches of enforcement agencies can lead to far inferior outcomes. A poor quality regulatory system can impinge on the public sector's ability to act effectively and swiftly. Multiple and complex processes, requiring approvals from different officials spread across different agencies, stymies action and implementation. When actions need to be taken urgently, Italy relaxes regulations, although this is usually temporary. Special commissioners responsible for priority or emergency projects -- such as the Milan Expo or the reconstruction of the Genoa bridge -- have the power to circumvent some regulatory requirements. However these arrangements for high-profile projects does not address weaknesses in the regular investment projects. The Simplification Decree, introduced during the COVID-19 emergency, relaxes some regulatory processes towards accelerating the crisis response and recovery measures by the public and private sectors. For example, it temporarily accelerated approval requirements for health products. Italy's National Resilience and Recovery Plan includes cuts to regulatory requirements, for example for testing innovative pilot innovations and digitalisation projects under the "Sperimentazione Italia" programme.

Overlapping regulatory responsibilities and intrusive inspections add to compliance costs for private actors. Italy's decentralisation since the late 1990s has shifted some regulatory implementation functions to subnational governments. The heaviest inspection burden has applied to the small and retail service firms (Blanc, 2012[34]). For example, a retail food services business may have to comply with fiscal inspections by two central government agencies, occupational health and safety regulations overseen by several national and subnational agencies, and public health and food safety regulations enforced by both national

and subnational agencies. Box 2.7 presents examples of how other OECD countries have reduced the burden of inspections.

## Figure 2.5. Italy has substantially improved how it designs regulations, but still regulates some sectors heavily




Note: A higher iREG score indicates that the country has implemented more of the regulatory practices advocated in the OECD Recommendation on Regulatory Policy and Governance. The indicators on stakeholder engagement and RIA for primary laws only cover those initiated by the executive (88% of all primary laws in Italy).

Source: OECD (2018), OECD Regulatory Policy Outlook 2018, Indicators of Regulatory Policy and Governance (iREG), http://oe.cd/ireg; OECD (2020), OECD Product Market Regulation (database).

StatLink https://stat.link/zbexdo

### Box 2.7. Reforming regulatory agencies' practices to support compliance in France, Lithuania and the United Kingdom

A number of OECD countries have reformed how enforcement agencies implement regulations, towards lightening the burden for both operators and the public administration.

In the **United Kingdom**, local authorities carry out most inspection and enforcement activities, at times in addition to or in parallel with national agencies. This can lead to different interpretation and enforcement of regulations in different parts of the country, increasing compliance complexity and costs. To address this, the United Kingdom created the Primary Authority scheme in 2008, administered by what is now called the Office for Product Safety and Standards. It enables businesses to form a statutory partnership with one particular local authority. This authority then advises other local authorities' regulators that supervise other branches of the same business on carrying out inspections or addressing non-compliance. Agreements can cover broad or specific areas of environmental, health, fire safety, licensing and trading standards legislation, and the scheme has progressively been extended to cover new areas of regulation and to businesses. Since 2015, even small businesses operating in only one locality can benefit from the scheme through their business association, further lifting use of the scheme.

**Lithuania** substantially reformed its regulatory inspection arrangements following the global financial crisis and as it aligned its domestic regulations with EU rules and practices. Under the slogan 'from punishment to advice', its reforms include several innovations:

- Regulatory agencies signed a joint declaration that they would use sanctions only as a last resort measure when performing inspections on businesses that are less than one year old. This was to allow new businesses time to get acquainted with relevant regulations and compliance processes, and to better balance the need to protect public interests and adopting a collaborative approach to their relationships with businesses. Over three-quarters of firms receive advice from inspectors during their first year of operation.
- Regulatory agencies invested in providing advice to businesses. Agencies established hotlines to answer questions, and published the answers to frequently asked questions online. Hotlines receive almost 1million calls per year.
- Agencies developed regulatory checklists for businesses suffering most from information asymmetry or uncertainty, such as SMEs, small food operators, catering, or repair shops.

Recent reforms in **France** allow economic operators to ask the customs administration to check that they are in compliance. The operator makes the request to their regional customs directorate via an online form. After each check, the customs officials provide written conclusions and confirm whether the activities comply with requirements. These conclusions are binding for other services in the case of later control, except for issues related to public health, safety of people and property, or environmental protection.

Source: (World Bank, n.d.[35]); (Blanc, Ottimofiore and Knutov, 2019[36])

*Reviewing and cutting the stock of regulations and processes would improve their effectiveness*

Italy has substantially improved how it designs regulations, and the National Recovery and Resilience Plan includes further measures to review and streamline new and existing regulations (Figure 2.5). Italy's recent reforms have improved how stakeholders are engaged in the design of regulation. They have improved the quality of the regulatory impact assessments by developing criteria for assessments, including of economic, social and environmental effects, by creating an independent unit to conduct the reviews, and by allowing low-impact proposals to pass a simplified regulatory impact assessment.

The improvements to drafting new regulations are welcome. However, it is the regulations and compliance measures already in place that most affect firms and individuals. Italy is estimated to have 160 000 laws in force, compared with 7 000 in France and 5 500 in Germany (The European House - Ambrosetti, 2019[30]). These were often introduced in different technological and regulatory contexts. Systematically and regularly reviewing this stock can ensure that regulations remain "cost effective and consistent and deliver the intended policy objectives", as recommended by the 2012 *Recommendations on Regulatory Policy and Governance* (OECD, 2012[37]; OECD, 2018[38]).

A major stocktake exercise of existing regulations, prioritising sectors with the greatest regulatory burdens and that are key for Italy's post-COVID-19 recovery, could make inroads. A comprehensive exercise would cover all layers of the regulatory system, from the high-level legislation through to the implementing regulations and to the compliance procedures of different agencies. Italy's recent review of registration processes for food businesses demonstrated the benefits of such exercises. In Australia, a decade-long stocktaking review by the independent Productivity Commission of 1 600 legislative items led to most being revised or removed (OECD/KDI, 2017[39]). Updating Italy's 2012 survey of regulatory inspections could provide evidence on regulatory processes to inform such stocktaking reviews, and applying toolkits such as the OECD's *Best Practice Principles for Regulatory Enforcement and Inspections* could provide a diagnostic for recommendations (OECD, 2018[40]; 2014[41]). To give the stocktaking review more impetus, Italy could follow countries such as the United Kingdom in requiring that at least one existing regulation is repealed for each new regulation introduced.

Developing specialised capacity to review regulations before and after they are implemented may improve the quality and speed of reviews. Currently, the Department of Legal and Legislative Affairs (DAGL) of the Presidency of the Council of Ministers reviews assessments of planned regulations, with support of external experts at the Impact Assessment Independent Unit (IAIU). Offices in the Senate, Chamber of Deputies and the Council of State are also involved in evaluating assessments. The Administrative Simplification Office and its National Delivery Unit in the Department of Public Administration lead much of the government's programme to reduce bureaucratic constraints (Ministro per la Pubblica Amministrazione, 2020[42]). However, some key users find that these reviews can be more bureaucratic than substantive exercises (Ufficio Valutazione Impatto, 2018[43]).

The Productivity Board discussed in Box 1.8 could take a leading role in preparing and coordinating assessments of both planned and existing regulations, as such bodies do in a number of OECD countries, such as Australia and New Zealand (OECD, 2020[44]). These reviews are effective when they consider the whole 'regulatory delivery' framework, going beyond the formal regulations to include regulators' mandates and legal framework, and structures and resources (OECD, 2014[41]). Such a body would apply reviews of existing and planned regulations more consistently across subjects, with a systematic approach to consulting with enforcement bodies and those that are affected by the regulations across different layers of government, as well as technical and economic experts (OECD, 2019[45]). This body could establish indicators of regulations' performance and effects on all users, including competitiveness (OECD, 2019[46]; Davidson, Kauffmann and de Liedekerke, 2021[47]; OECD, 2012[48]).

Regulatory reviews are also an opportunity to make regulations more accessible through clearer language and better drafting. The government's simplification agenda includes these ambitions. Box 2.8 describes how other OECD countries have developed 'plain language'. Regulatory reviews are also an opportunity to reframe regulations in terms of outcomes rather than as prescribing required actions, and to shift interpretation and enforcement to a proportionate, risk-based approach (OECD, 2018[40]). This shift in framing regulations would further the 2020 Simplification Decree and National Recovery and Resilience Plan measures to remove the threat to public servants of judicial proceedings and criminal penalties for some actions, which can encourage defensive rather than proactive decision making (Blanc, 2020[49]).

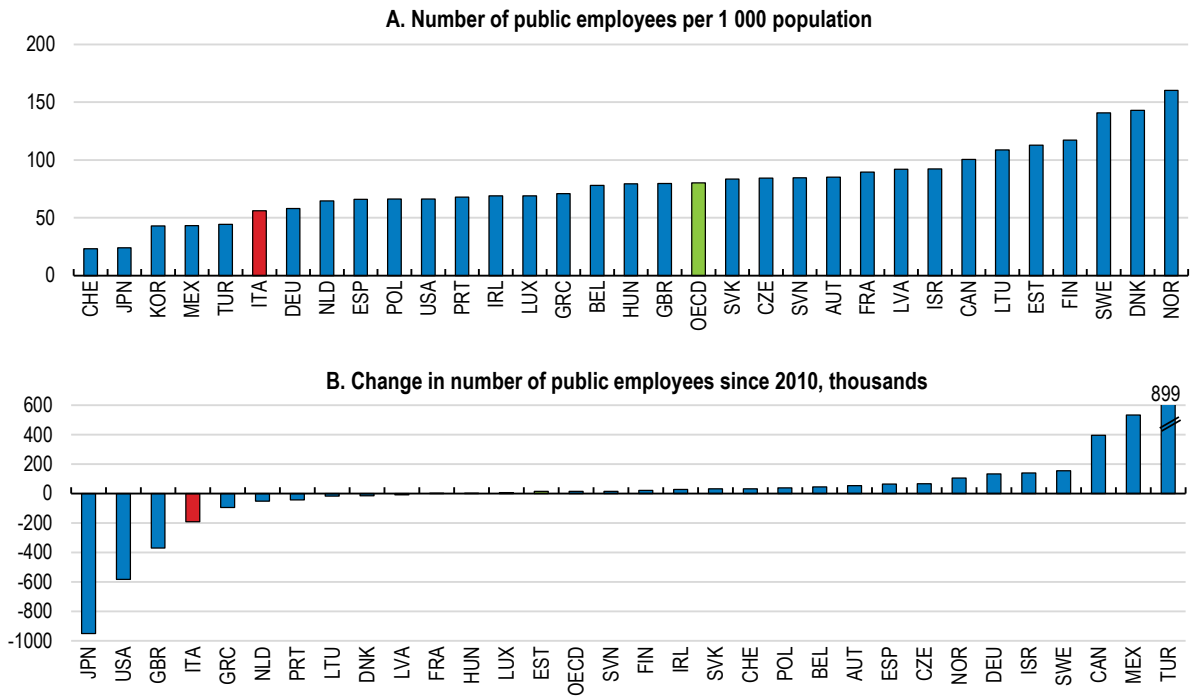
## Improving how the public sector delivers

### *An agile public service empowered to deliver*

Italy's public administration is relatively small, ageing fast and lacks many needed skills. Waves of reforms to public sector management since the 1990s have strengthened the public sector workforce focus on delivering public goods and services, rather than being perceived primarily as a source of jobs and income (Cavatorto and La Spina, 2020[4]). Hiring restrictions over the 2010s intended to limit public spending, especially among subnational governments, cut the number of public servants to among the lowest across OECD countries relative to the population, and the public sector wage bill has fallen below the OECD average (Figure 2.6; Figure 2.2, Panel B). These measures brought a more consistent distribution of public servants across regions, although the headcount fell by most in some of the regions where public service delivery is weakest (Rizzica, 2020[50]).

### Figure 2.6. Italy's public sector workforce has been reduced to among the smaller across the OECD

2020 or most recent year available




Note: Public employees are at the general government level, as recorded in the national accounts. The OECD data is the unweighted average of the OECD countries shown in the chart. ILOSTAT data are used for Finland, Japan, Korea, Mexico and Turkey.
Source: OECD Economic Outlook database; and ILO, ILOSTAT (database), Public employment by sectors and sub-sectors of national accounts.

StatLink https://stat.link/2rfytp

### Box 2.8. 'Plain language' for clearer communication and better regulation: experience from Italy, Portugal and Sweden

Italy has long recognised the importance of the state communicating clearly with citizens. Legislation and directives in the early 2000s laid out requirements to simplify writing, and simplification of administrative language features in the government's 2020-2023 simplification agenda. Public servants can find guidance in manuals and a 7 000 word plain language dictionary. Some regions (including Tuscany, Piedmont and Lombardy) have explicitly prioritised improving their communications with their citizens. Yet, Italian legal drafting and official communications is often hard to understand for the non-specialist. Long sentences and paragraphs, complex constructions, and frequent references to texts not reported in the main text can make official communications inaccessible or ineffective.

Many OECD countries have taken concerted steps over recent decades to shift their administrative communications to 'plain language'. Linguistic research has found readers read texts faster and with fewer errors when they are guided by informative headings, through text broken into short sections and sentences, written positively in the active tense. Plain language expands access to official communications, and can spare citizens from employing lawyers or other expert interpreters. In Portugal, a plainer communication push in the late 2000s led to considerable savings for the Telecoms company by reducing interactions, a halving in complaints to the highway body, and for political parties to include plain language in their policy platforms. The 'plain language' movement has had a large effect on Anglo-Saxon countries' legal drafting and administrative communications. In countries sharing Italy's legal traditions, Sweden's plain language efforts since the 1980s have become a model.

Like Italy, Sweden introduced a legislative requirement for plain writing, and provided public officials with supporting materials. In addition, Sweden's Division for Legal and Linguistic Draft Revision revises all draft acts, ordinances, bills, and committee terms of reference. Lawyers pair with linguists to review the text, and provide the original drafters with comments and allow time for discussions and revisions. The Division also supports reform of existing legislation and regulations. It provides regular training and workshops, and maintains a website to support officials for other communications.

Sweden found that changing perceptions of what constituted correct drafting was essential. Clear, consistent support from senior political and official leaders for the plain language efforts have given the effort legitimacy and have permitted drafters to change their long-held models. A group to campaign for plain language, with a contact in almost every government body, built demand and acceptance of plain language by disseminating information, tracking and reporting on the readability of official communications, and awarding prizes to good examples. This, like a high-profile campaign in Portugal for plain language, contribute to changing legislators' and other users' expectations of official drafting. Involving the users of the legal texts and administrative communications in the plain language reviews can improve the quality of the language. Finally, the Swedish reformers emphasise that they needed to be remain tenacious into the long-term.

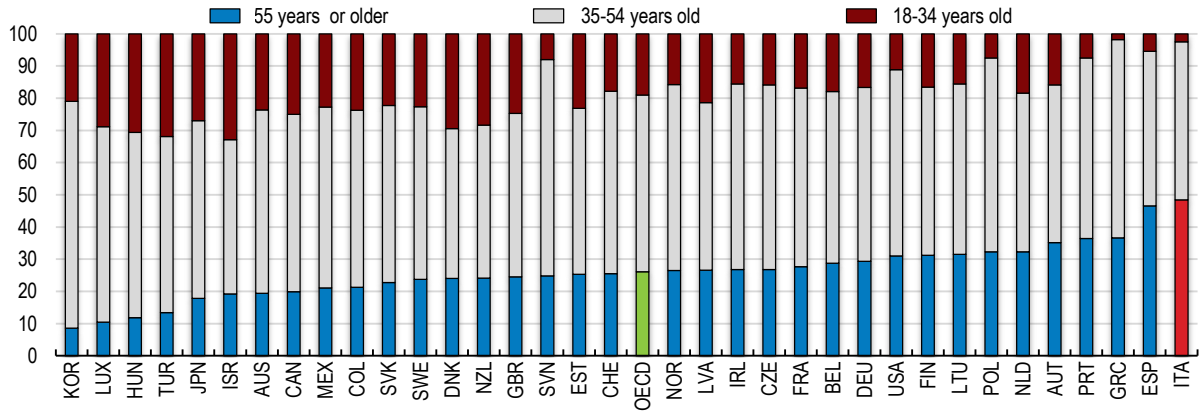
Italy can strengthen its 2020-2023 plain language goals by employing linguists and other plain language experts to support the drafters in the Department of Legal and Legislative Affairs (DAGL) of the Presidency of the Council of Ministers. This could include an office to encourage and support subnational governments in changing their approach to communication, building the sort of network developed in Sweden.

Sources: (Ministry of Justice, Sweden, 2006[51]; Ehrenberg-Sundi, n.d.[52]; Alsina Naudi, 2018[53]; European Commission, 2019[54]; Ministro per la Pubblica Amministrazione, 2020[42])

Italy's public servants are the oldest across the OECD, and the number eligible to retire will accelerate in the coming years (Figure 2.7). Some of this loss of human capital and organisational knowledge can be transferred to a new generation if the recruits are in place before the retirees leave. The retirements of older staff, whose seniority entitles them to higher pay rates, may also free some budgetary space to hire fresh skills that attract a wage premium. Too few of the current public servants have the skills that the public service now needs. In Italy, the share of public servants with tertiary degrees is lower than in most other OECD countries, even after accounting for the lower share of the overall workforce with tertiary education. Together, these issues weaken public service delivery and are key constraints to delivering public goods and services, such as in areas requiring engineering, information technology and data analysis skills central to the National Recovery and Resilience Plan (Boeri and Rizzo, 2020[3]). For example, across municipal governments, less educated and older public workforces are associated with less efficient delivery of administrative services and early childhood education care, and with slower public investment spending (Bulman and Doino, Forthcoming[55]).

## Figure 2.7. Italy's ageing public workforce will soon bring a loss of experience and an opportunity for renewal

Distribution of people employed in the central government by age group, 2020




Source: OECD (2020) Survey on the Composition of the workforce in Central/federal Governments.

StatLink https://stat.link/yfg4hs

### *Lifting barriers to public servants acting with confidence*

Public servants' legal obligations and the spectre of prosecution and even criminal penalties for decisions made can create incentives to avoid actions or decisions. Even in public organisations with limited threat of judicial sanctions, internal incentives can encourage defensive decision-making (Artinger, Artinger and Gigerenzer, 2018[56]). In Italy, measures introduced to control the risk of corruption expose public officials to the risk of judicial processes with serious penalties, and the number of judicial proceedings against public officials has increased significantly since the early 2000s. While pursuing integrity, these discourage public servants from taking action or from seeking positions of responsibility. For example, public servants in administrations recently subject to judicial investigations are less likely to behave proactively (ForumPA, 2017[57]). Public servants are more likely to use simpler, 'lowest cost' procurement processes that do not account for the quality of competing bids (discussed below) when they perceive a higher threat of prosecution for abuse of office (Battini and Decarolis, 2019[58]).

The 2020 Simplification Decree takes steps to address this 'defensive bureaucracy' problem. The Decree temporarily relaxes public servants' personal liability before the Court of Auditors, and the National

Resilience and Recovery Plan extends some of these measures to the end of 2023. The Decree also permanently provides a more detailed description of the misconduct that would be criminally liable for 'abuse of office' by public servants, providing greater liability for cases of intentional non-action. This reform only applies temporarily to a narrow range of administrative procedures. Even if the scope of this reform is narrow, these reforms are important steps, as they change deeply-rooted concepts of fault and public servants' potential liability. The effects of this shift merit being monitored. If they do not substantially damage integrity, these measures could be expanded to other domains or be made permanent.

Rather than the threat of legal sanctions, developing a strong set of values and ethical standards can help encourage effective practices, reduce the frequency that decisions are defensive, and can help integrate new public servants and motivate existing staff. Such standards can strengthen human resource management, such as by providing the framework for performance assessments. The OECD (2019[59]) *Recommendations on Public Service Leadership and Capability* suggest such standards relate to accountability, impartiality, the rule of law, integrity, transparency, equality and inclusiveness. Developing employees' voice, and providing a constructive approach to failure, are associated with more proactive decision making (Artinger, Artinger and Gigerenzer, 2018[56]). Allowing good performance to improve promotion prospects would also improve incentives to act proactively, and provide some balance to the threat of dismissal for bad performance that currently operates in Italy (OECD, 2019[60]).

Strong, impartial leadership drives public sector effectiveness (OECD, 2016[61]; Gerson, 2020[62]). While public servants are constitutionally protected from political interference, political influence on appointments, dismissals and other career developments extends into more of the senior layers of Italy's public administration than in many other OECD countries (Matheson et al., 2007[63]; Boeri and Rizzo, 2020[3]). This risks weakening the quality of advice or slowing execution, and can lead to senior positions being awarded for reasons other than technical and managerial capacity. For example almost two-thirds of public servants report they are often blocked in their work by decision makers not taking decisions (ForumPA, 2017[57]). Experience across OECD countries suggests that limiting political involvement to the most senior staff, and a hybrid appointment process where the political decision-maker selects candidates from a shortlist focused on technical and managerial skills and prepared by an independent body, may better balance political responsiveness with skills. Introducing performance agreements, which include measurable and realistic outcome or output indicators, and supported by 360ºreviews, can support accountability for results and develop professionalism and leadership.

### *Rewarding performance, boosting skills and supporting mobility*

Competitive pay rates can help attract skills and can motivate public servants. In Italy, the overall pay structure is flatter than in the private sector. Gaps in pay relative to the private sector can be significant for mid-level highly skilled positions, while those with the lowest levels of education are paid better than in the private sector (Figure 2.8, Panels A and B) (Depalo, Giordano and Papapetrou, 2015[64]; World Bank, 2020[65]). For the top echelon of public servants, reforms in the 2000s raised pay levels to among the highest levels across OECD countries and comparable to their private sector counterparts (Figure 2.8, Panel C) (OECD, 2017[24]).

Italy's public sector compensation scheme has fewer job categories than in many other countries, for example between different administrative, managerial and different professional jobs groups. While a streamlined pay system supports mobility and transparency across the public sector, which are to be encouraged in Italy, it limits pay flexibility and can widen gaps with private sector pay. Pay scales are national, even if living costs vary markedly between regions, and this increases competition for positions in the South. The public sector pay premium for low-skilled workers can create 'golden handcuffs', where workers become blocked in positions, lacking qualifications to advance or the financial incentives to shift to potentially more fulfilling jobs elsewhere, and demotivated (OECD, 2016[61]). In contrast, developing additional job categories for medium-high level skilled staff can better reward performance and help attract

and retain more skilled, innovative and productive workers, without having to promote these professionals to managerial positions (Rexed et al., 2007[66]; OECD, 2012[67]). Having depoliticised public sector pay negotiations, the public sector negotiation agency (ARAN) could now work with social partners to reform the pay structure, as part of broader public sector reforms including developing a stronger performance culture. Providing room to decentralise the pay process, at least to the level of individual administration as in the Netherlands, would allow increased differentiation and for operational managers to adapt their pay systems to business needs, although this needs to be balanced with ensuring that differences in pay rates do not impede public sector mobility. Some Scandinavian countries have developed delegated public sector pay-setting, and Italy can draw on elements of their approaches (Box 2.9).

Limited access to training or to mobility across the public sector reduces public servants' ability to develop their careers and the public administration's ability to adjust its human resources to evolving needs. Over the 2010s, spending on training almost halved to EUR 48 per year per public servant (Presidency of the Council of Ministers, 2021[9]). Almost 30% of public employees in Italy report not having access to supporting material such as instructions and guides, procedure manuals, or fact sheets, compared with a European average below 10% (European Commission, 2016[68]). Italy is among a minority of OECD countries that does not have learning plans in each organisation within the central public administration or in requiring public servants to follow individual learning plans that layout training and skill development. Some public agencies have lauched training initiatives, although their resources and ambition are generally limited. The National Resilience and Recovery Plan (NRRP) envisages making access to training a right for public servants, and focusing training more on prioritised competencies, such as using new technologies and digitalisation, discussed below. Remote learning via digital platforms can boost training access, as the COVID-19 experience demonstrated. Alongside strengthening formal training, encouraging informal exchanges can help transfer knowledge between long-standing staff and new recruits, and for colleagues to learn how to best exploit new digital tools. Communities of practice or 'show and tell' sessions can help develop habits of informal sharing and collaboration (OECD, 2021[69]).

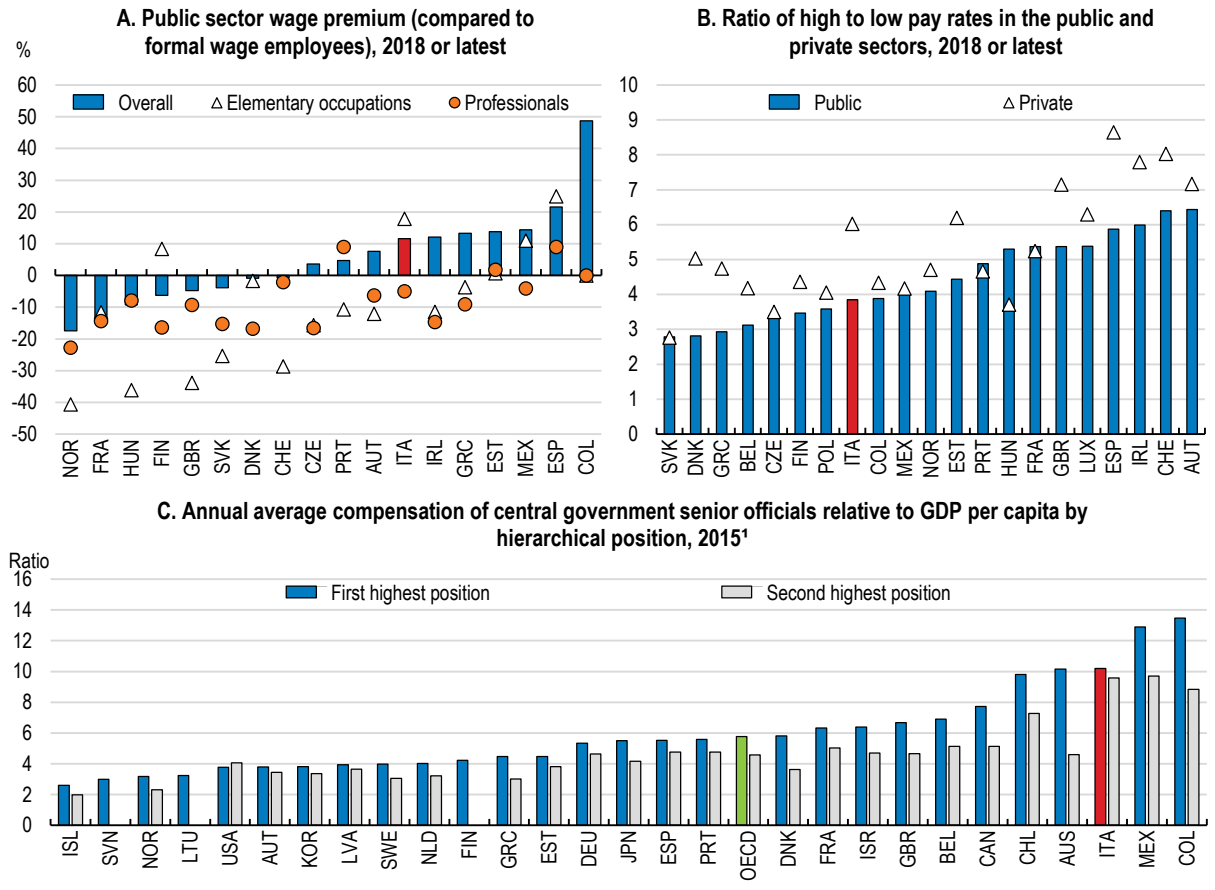
Promoting mobility across Italy's public sector, and between the public and private workforces, can also improve skill-matching and career development. It can help implement the surge of investment and reform projects envisaged by the NRRP. Measures to promote mobility within the public sector can include developing public sector-wide vacancy advertising, removing rules that impede movements between agencies or levels of governments, and sharing performance appraisals (Gerson, 2020[62]; OECD, 2019[59]). Private sector workers may be more likely to apply for public positions if the long (two-year) and strict 'cooling-off periods' are lightened and focused more on specific cases where integrity risks are significant.

### Box 2.9. Boosting pay flexibility through decentralised pay setting

Denmark and Finland have among the most decentralised public sector pay-setting across OECD countries. In these countries, decentralised pay-setting is part of a consensus pay-setting model. A central collective agreement covering all central government employees is negotiated with social partners, and is then implemented through secondary negotiations at the agency or other sub-central level. Clauses in the central agreement frame the parameters for adjustments at these lower levels, ensuring coherence across the public sector. Policy makers can choose to make these clauses highly prescriptive or to be very general to offer greater discretion to these lower-level authorities.

Source: (Rexed et al., 2007[66])

## Figure 2.8. Public service pay rates are compressed, with low skill and the top echelon of public servants earning relatively high wages




Note: Japan: data are provided in terms of entry and maximum level of total compensation, the arithmetic mean has been taken in this chart.
Source: World Bank (2020), Bureaucracy Indicators Dashboard; OECD (2017), Government at a Glance 2017.

StatLink https://stat.link/pcgmxn

### *Agile and reactive hiring to rejuvenate the workforce, transmit experience and fill skill gaps*

The rapidly ageing public workforce and the significant skill gaps make expanding and strengthening the public sector's recruitment urgent. Past public sector reforms made few changes to recruitment, as they were partly motivated to reduce costs by cutting staff numbers (Bassanini, 2010[2]). To rejuvenate the public workforce, government agencies are now embarking on hiring campaigns, targeting needed skills such as in digital technologies. The National Recovery and Resilience Plan provides for the recruitment of thousands of public servants to fill skill gaps across different public functions and layers of government, including subnational governments where staffing capacity has become particularly thin. For example, central government ministries have launched a campaign to recruit 2 800 officials for local authorities in the South, and created a technical assistance programme that will provide 1000 technical experts to help subnational governments address bottlenecks to project execution. Having recruits in place before current staff retire would be a valuable investment for passing skills and experience to the new generation.

In Italy, like many OECD countries, recruitment suffers from high volumes of applications, lengthy procedures, numerous assessment steps and tight regulations. Nearly all employees of the government have public servant status and are employed on permanent contracts. They started their career by

preparing and passing the common public service entry competition, regardless of their technical speciality. This competition focuses on administrative processes and laws, and is overseen by voluntary commissioners rather than full-time recruitment specialists. Agencies select candidates who have cleared the competition, although this may be years after a candidate passes the competition. An important exception to this process relates to senior public servants, who can also be hired through a direct competition rather than the general public service exam.

More flexible recruitment processes and dedicated programmes to attract young talent, such as graduate programmes, could better recruit youth and attract more diverse candidates into the public sector (OECD, 2020[70]). A number of OECD countries, including both Anglo-Saxon countries and countries with public service traditions closer to Italy's, have shifted from entrance exams to more entrepreneurial recruitment strategies. Such strategies appear to be particularly important for attracting 'Generation Y' and 'millennials' (OECD, 2016[61]; Institute of Public Management and Economic Development, 2011[71]). These approaches draw from the proactive 'talent hunting' strategies of large private sector professional services firms. For example, agencies attend career fairs and seek applications from university graduates in relevant fields with strong grades and who have demonstrated 'soft' skills, and invite targeted candidates to social events alongside undertaking a range of assessments.

While a common assessment can still inform recruitment process, a greater part of the selection process could focus on technical and 'soft' skills needed by the recruiting bodies, while taking care to ensure that these assessments do not lead to latent discrimination in candidate choices. Public services have developed various strategies to identify whether candidates have the needed capabilities: Australia and Switzerland use cards for recruiters that summarise capabilities and associated behavioural indicators needed for certain positions; Belgium has developed tailored tests to identify whether candidates have the needed skills (Op de Beeck and Hondeghem, 2010[72]). Whether the new recruit in practice has the intangible or soft skills to be a successful public servant will often only be confirmed after some time on the job. Integrating the probationary period into the selection process, such as by avoiding automatic confirmation and allowing probation to be extended, accompanied by mentoring support and opportunities to demonstrate skills, could improve the workforce's quality.

To fill temporary skills gaps, such as those that will arise in implementing the NRRP, greater use of limited-term contracts can help lighten the recruitment process and add flexibility, if managed carefully. Reforms in the 1990s allowed public servants to also be hired on temporary contracts, and this approach is used by some highly technical, independent agencies, such as the Digital Transformation Team, and when there are urgent needs to boost staffing, such as the expansion of public employment services (discussed below). In practice, few public servants have been hired on limited-term contracts, and in some instances short-term contracts have been used to rapidly expand staffing in areas that instead require longer-term investments in recruiting and developing a skilled workforce, such as in the expansion of the public employment services to boost access to the guaranteed minimum income and active labour market policies (discussed in Box 2.11).

Balancing the flexibility with the insecurity of limited-term contracts – low job security for employees and skill retention risk for employers – has challenged many public organisations. In consultation with social partners, the government could improve this balance by delineating fields that may be filled by limited-term contracts, with a focus on temporary technical needs. Employees on limited-term contracts that have been repeatedly renewed could be given paths into the regular public service. The OECD's (2019[59]) *Recommendations on Public Service Leadership and Capability* provides guidelines to improve the role of temporary contracts.

Workforce planning exercises would help prioritise recruitment by anticipating the public service's skill needs after the coming waves of retirements and given ongoing changes in the nature of work. The workforce planning exercise may identify positions vacated by the retirees that do not need refilling, and reallocate positions to areas suffering shortages. For example, Italy has a far higher ratio of managers to

employees than in other countries' public sectors or in its private sector (Boeri and Rizzo, 2020[3]), suggesting that these positions may be allowed to lapse and replaced with senior technical staff. This exercise would require collaboration between agencies, with their specialised knowledge of their subject areas, coordinated by a dedicated central body that can help agencies assess needs relative to their objectives and to arbitrage skill needs across different agencies (Op de Beeck and Hondeghem, 2010[72]).

### *Strengthening procurement for swifter and higher quality spending*

The scale of public procurement means any improvements can significantly raise the effectiveness of spending, help realise broader policy goals and improve citizens' trust in institutions. The COVID-19 crisis highlights the importance of reactive and effective procurement processes. Italy's public sector spent 10.3% of GDP procuring goods and services in 2018, slightly below the average of OECD countries. Achieving the National Recovery and Resilience Plan's boost to public investment equivalent to 13.5% of 2020 GDP will require swift and high quality procurement.

Italy's procurement framework, like many other OECD countries, recognises that effective public procurement can support broader policy objectives, alongside the primary goal of value for money. Italy already has in place a suite of measures to support procurement from the country's many small and medium-sized enterprises, and to enable procurement to support environmental objectives and responsible business conduct (OECD, 2020[73]; OECD, 2016[74]). Italy's central and some regional governments' procurement agencies have dedicated measures in place to encourage innovative bids in contracting, which have been used more intensively during the COVID-19 crisis (OECD, 2020[73]). Encouraging innovation in procurement can boost the quality and cost-effectiveness of existing products used by the public sector (OECD, 2017[75]).

Many aspects of Italy's procurement processes are rated well against OECD benchmarks, reflecting recent years' extensive reforms (OECD, 2019[76]). Yet procurement continues to hamper public service delivery and investment in Italy, and is particularly an impediment to using EU funds and for subnational governments to deliver public investment (discussed below) (OECD, 2021, forthcoming[77]). Italy's average project procurement times are too slow to achieve many of the National Recovery and Resilience Plan's objectives and are longer than in most other OECD countries. For public works, designing and awarding contracts takes on average 11 months for smaller projects and up to 25 months for larger projects. Once contracts are awarded, at least half of public works projects experience delays which averaged at least 50% of the contract length (di Giuseppe, Landi and Lattarulo, 2020[78]). On average, works are completed six years after a project design is assigned (Agenzia per la coesione territoriale, 2018[79]). For urgent, important projects, the government resorts to Special Commissioners to negotiate contracts outside of standard processes, and plans to use such commissioners again for the NRRP (Palumbo Crocco and Crocco, 2020[80]; Presidency of the Council of Ministers, 2021[9]). The European Union Commission's Single Market Scoreboard has consistently rated Italy's public procurement as 'unsatisfactory', due in part to the relatively high and rising frequency that contracts are awarded to a single bidder, and the high share awarded without a call for bids. Small and medium sized enterprises win a relatively modest share of tenders, despite extensive measures to support their bids. Procurement agencies' patchy competencies, both technical and administrative, is a potential source for irregularities. Enforcement mechanisms are weak in systematically challenging and sanctioning non-compliance (European Commission, 2020[25]).

#### *Far-reaching procurement reforms have been unwound due to slow implementation and capacity constraints*

In 2016 and 2017, Italy replaced its legal framework for procurement, introducing many measures generally recognised as effective practices for balancing flexibility and agility with improved integrity. These reforms were welcomed by past OECD Economic Surveys of Italy (2019[6]), and brought Italy into line with the 2014 European Directives on public procurement. A major innovation was to regulate procurement through

instructions and guidelines provided in readily adaptable 'soft laws' issued by the anticorruption agency (ANAC), rather than a single prescriptive regulatory code. To take better account of quality, the reforms promoted awarding contracts to the "most economically advantageous tender", limiting lowest-price awards to low-value tenders, and empowering contracting authorities to choose their tendering process. These reforms require procurement authorities to have strong technical skills and capacity. To ensure adequate capacity, the reforms required ANAC to qualify contracting authorities based on an assessment of their capacity to design, allocate and verify public contracts, while automatically qualifying larger procurement authorities. This was intended to encourage smaller bodies procuring goods and services to conduct more procurement through these larger, specialised procurement bodies, rather than in-house. To improve evaluations and transparency, the reforms required contracting authorities to separate the design of a project from the contract for executing the project and introduced a performance register of contracting companies.

Heightened delays in procurement and difficulties for procuring bodies to adapt to the new system led the government in 2019 to unwind much of the 2016-17 reforms. Procurement was re-codified, and the requirement to award tenders above a prescribed value to the 'most economically advantageous' bid reverted to being an optional alternative to awarding to the lowest cost bidder, rather than the default approach. There were no further measures to encourage smaller bodies to consolidate procurement to higher capacity procurement authorities. With the COVID-19 crisis, and within the National Recovery and Resilience Plan (NRRP), the government instead temporarily simplified and accelerated procurement processes further, especially for the sectors essential to the COVID-19 response, by allowing greater use of direct awards or negotiated procedures for purchases in priority areas. These measures to accelerate procurement risk poorer-quality purchasing, and their effects merit monitoring. Giving greater weight to quality in selecting winning bids would make procurement more competitive and support innovation and other broader policy goals, which would support the NRRP's objectives and the recommendations of the 2021 *Economic Survey of the European Union* (OECD, 2021, forthcoming[77]).

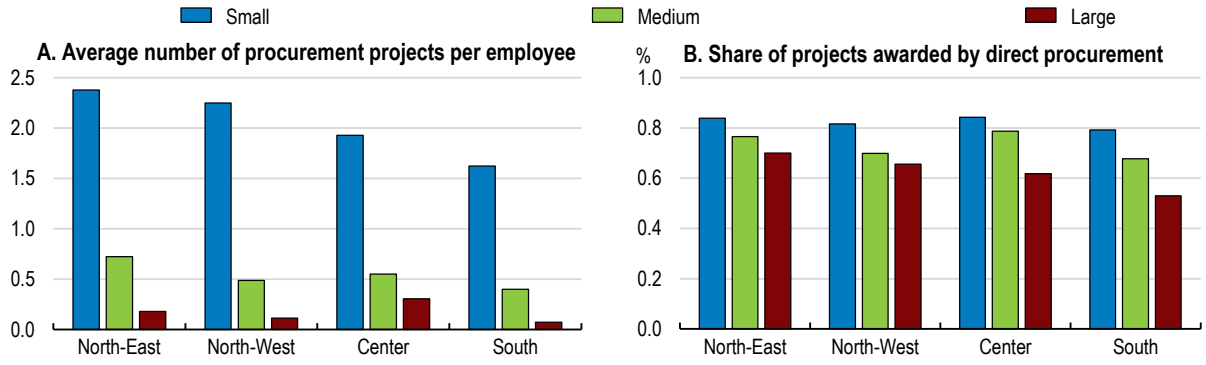
### *Improving procurement performance requires strengthening staff and organisations*

Procurement authorities' capacity varies widely across Italy. Boosting capacity is well-recognised as essential for improving public procurement effectiveness in Italy, as in most OECD countries (PWC, 2016[81]; di Giuseppe, Landi and Lattarulo, 2020[78]; OECD, 2019[76]). The central government procurement agency, CONSIP, and the regional governments' specialised procurement agencies perform the bulk of the government's standard purchasing. These bodies generally have deep, specialised capacity, and have developed innovative approaches. For the projects supported by the National Recovery and Resilience Plan, procurement will be coordinated through a 'control room' in the Prime Minister's office. Beyond these, procurement is spread across 30 000 bodies, and sub-national authorities are responsible for three-quarters of procurement spending. In these agencies, staff handle more procurements, although most are small and more can be awarded directly rather than via an open tender (Figure 2.9). The NRRP seeks to encouraging consolidating procurement into fewer contracting authorities, which would be a welcome step towards consolidating procurement capacity.

Developing procurement agencies' capacity and effectiveness could start with recognising procurement as a profession (OECD, 2017[82]). Specific job descriptions, including output and results expected from staff, can improve recruitment and ongoing performance appraisal. Professionalising procurement also involves developing a legal framework that protects officials from hierarchical pressure, provides special financial incentives and comfortable salaries, and sets obligations in respect of ethics, prevention of conflicts of interest, years of service, and a mandatory cooling off periods following departure. New Zealand, for example, has developed a twenty-four point programme to professionalise and empower its public procurement workforce (OECD, 2016[83]).

## Figure 2.9. Smaller municipalities have thinner procurement capacity and use direct purchasing more often

Indicators by municipality size and region, 2019




Note: Procurement projects relate to municipalities offices covering road management, urban planning, and environment. 'Small' municipalities' population is below 50 000, 'medium' between 50 000 and 250 000, and large above 250 000.
Source: OpenCivitas and OECD calculations.

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Boosting capacity also requires developing individual staff's skills. Italy's public administration schools provide procurement training, and regional authorities can develop their own training plans. Most staff attend training regularly, and report that it is useful, yet they also report that they lack the key competencies required to fill their function (PWC, 2016[81]). For the many public officials in smaller agencies, Italy could adapt the European Competency framework for public procurement professionals, which covers skills and competencies needed across the whole procurement cycle, covering pre-market, sourcing and contract and supplier management components of the commercial cycle. The framework supports designing job descriptions to recruit and assess the performance of staff. Norway's læringsplattformen.difi.no provides a model of an e-learning platform for procurement for smaller bodies (OECD, 2017[82]). For more targeted training, France's Direction des Achats de l'État, offers a model of training programmes tailored to officials' positions and circumstances (OECD, 2019[76]).

Building organisational capacity is also essential. Italy's 2016 reforms and the NRRP in part aim to consolidate procurement into larger agencies merits being pursued. Yet much procurement activity is likely to remain at small agencies. Simplifying administration can help, such as by integrating procurement and budget accounting codes to help track projects' progress. Italy can draw from Australia's approach to coordinating without centralising information technology procurement between multiple layers of governments and public bodies. Australia's state (the equivalent of Italy's regions) procurement agencies are encouraged but not required to communicate, share experiences, and coordinate especially on complex procurement such as software systems. Where possible, they are encouraged to follow other authorities' project descriptions rather than calling for new, bespoke products. As part of the NRRP's gaols of boosting procurement for digitalisation, Italy could develop a conference of different governments' procurement agencies. Italy's anti-corruption agency ANAC could provide this conference with a secretariat, given its leading role in framing procurement rules following the 2016 reforms.

Finally, a stable framework for procurement is essential if skills and organisations are to remain relevant. Changing the procurement framework substantially and frequently creates uncertainty, slows processes and weaken officials' skills. Once the accompanying regulations and instructions are in place and procurement officials have undertaken adequate training, Italy can re-establish the key innovations of the 2016-17 reforms and benefit from its measures to boost the quality of public spending.

### *Realising the potential of the digital age for a more effective public sector*

OECD countries' experiences demonstrate that digital technologies and data can be pivotal in rethinking how the public sector operates, improving public services' quality and cost effectiveness, widening access and improving citizens' trust in public institutions (OECD/KDI, 2018[84]; Nicoletti et al., 2021[85]; Welby, 2019[86]). Integrating digitalisation into the reform of key public services, such as active labour market policies, can hasten improvements in service delivery and quality (Box 2.11). Data created through digitalisation can also help prevent fraud and more efficiently enforce regulations, as well as boost tax compliance. Public sector digitalisation contributes to a virtuous circle by encouraging private firms and individuals to digitalise their activities – a priority for Italy discussed in Chapter 1 – as discussed in Box 2.10. Italy has long recognised these potential benefits and digitalisation features in the National Recovery and Resilience Plan (NRRO), as it has in multiple public sector reform programmes.

#### Box 2.10. How digitalising the public sector can help drive broader digitalisation

Digitalising public services can help drive digitalisation across the broader economy, creating a virtuous cycle by in turn expanding the scope to digitalise more of the public sector. For example, many OECD countries' shift to online completion of tax information and payments is encouraging businesses and households to digitalise more of their operations, especially their financial management. Pre-filling tax forms with publically available data and connecting tax platforms to standard accounting systems reduces the time for taxpayers to complete tax returns, supports compliance and encourages taxpayers to maintain their activities digitally.

Digital identify programmes have been a priority of Italy's government digitalisation programme in recent years. The United Kingdom's GOV.UK Verify allows private sector companies to validate the identities of customers, helping them to more easily conduct business online.

Digitalising public records and developing 'open data' platforms is both expanding access to valuable information and allowing businesses to better design their operations. For example the digitalisation of the Bibliotheque Nationale de France's massive collections has expanded the range of users and increased access to the collections.

The process of digitalising the public sector can provide an incubator for innovative private digital economy start-ups. For example, the BrazilLAB programme is similar to programmes run in several OECD countries. These programmes connect digital entrepreneurs with areas of public service ripe for innovative technological solutions,

Fully realising the benefits of the public sector's digitalisation for the private sector may require additional, targeted support measures. In France, the Ministry of Ecology, Sustainable Development and Energy has digitalised rich information about buildings' energy efficiency attributes, towards supporting building enterprises better design building intervention. This information has mostly been used by larger construction firms, rather than smaller builders, that lack the technical capacity. To help overcome this, the "France Num" project, included in France's Recovery and Resilience Plan, aims to support the digitalisation of 300 000 small and medium sized businesses.

Successful digitalisation programmes are part of larger public sector modernisation strategies, as the OECD (2014[87]) *Recommendations on Digital Government Strategies* recognise. Digitalisation programmes go beyond technical investments in digital technologies to reforming how public sectors operate while fostering coherence and integration across public service delivery areas. To be effective, public administration digitalisation programmes need to be accompanied by expanding access to fast internet and by building digital skills within the public sector and across the society, as the NRRP prioritises.

The COVID-19 crisis has accelerated Italy's rapid progress in digitalising public services, especially at the central level. Overnight, many administrative tasks could only be performed online and public servants switched to teleworking. Open data initiatives promoted innovative research and development and fostered trust in public services by improving transparency and accountability (OPSI, 2020[88]). Italy outperforms the OECD average on the Digital Governance Index, in particular in developing the governance and frameworks that become foundations for digital government, such as the digital identity system. Artificial Intelligence and blockchains are demonstrating their usefulness in specialised areas such as public procurement or certifying tertiary qualifications. Despite the public sector's progress, users' demand for digitalised public services lags behind and has progressed less than other OECD countries (Figure 2.10 Panel B). This partly reflects Italy's broader issues with digital take-up, such as slow broadband and home computer take-up (discussed in Chapter 1). It also reflects that many digital public services are intended for businesses. The new IO.it app, designed to allow citizens to access public services via a smartphone and a feature of the NRRP's strategy, is likely to broaden digitalisation.

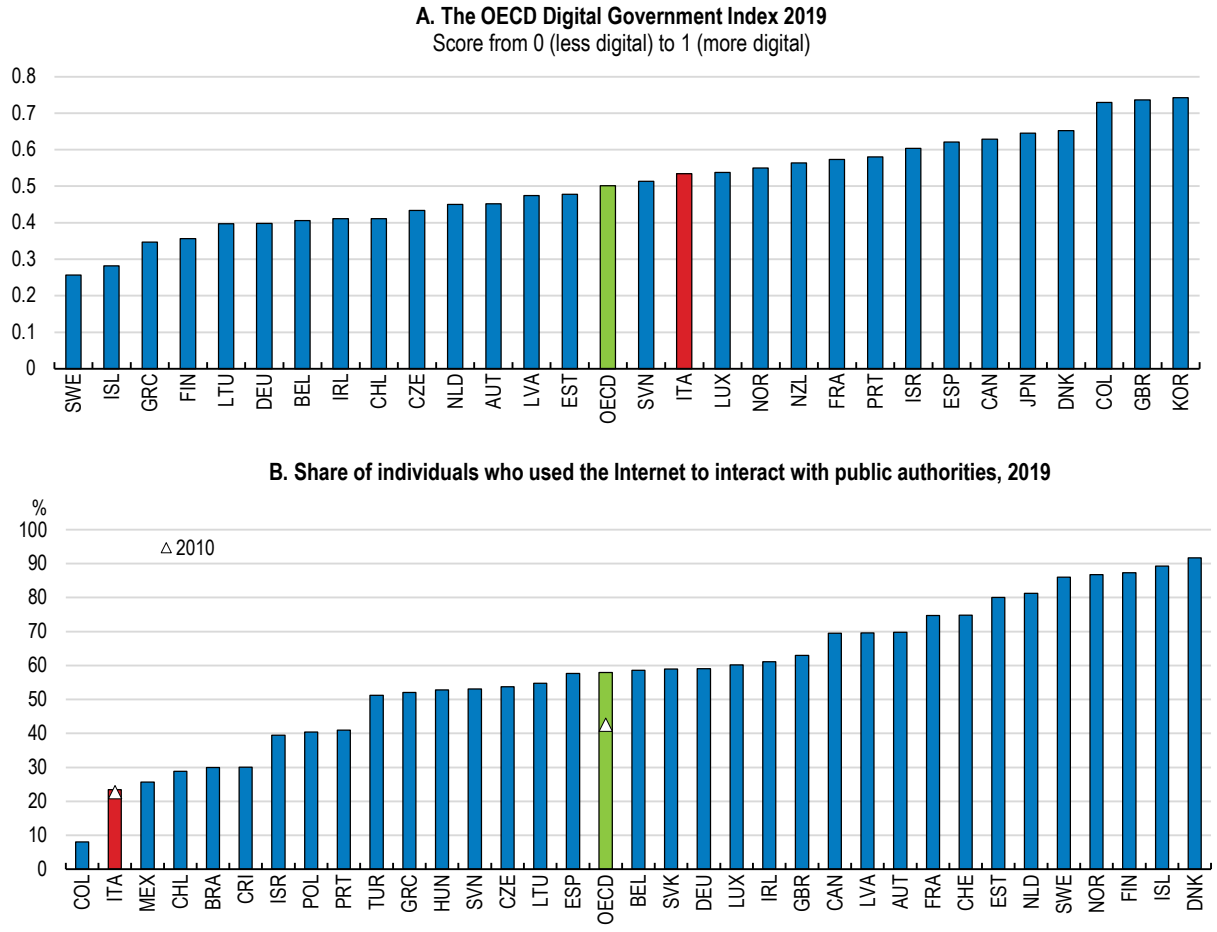
Italy's rapid progress has in large part been spearheaded by the 'Digital Transformation Team'. Since 2016, it has developed the public sector's digital ecosystem and applied it to public services, such as population registry and digital identity, and payments to the public sector (discussed in the 2019 *OECD Economic Survey of Italy* (2019[6])) (Figure 2.10, Panel A). Institutional reforms have since entrenched the team's place in the Prime Minister's office with a remit to support all public administrations, as recommended by the 2019 *Survey*. Over the coming years, the government has programmed EUR 9.75 billion (0.6% of 2020 GDP) for digital government and emerging technology programmes and capacity development the via the Simplification and Digitalisation Decree, the 2020-2023 Simplification Agenda and the *2025 Italia* agenda, and the NRRP will provide an additional EUR 11.15 billion. The Digital Government Index, reflecting the situation prior to the COVID-19 crisis, suggests that Italy's next priorities should be to strengthen the role of government as a platform, by equipping and empowering public sector organisations for digitalisation, as well as to develop the digital tools and services that can enable private innovators to contribute to digital government projects. The NRRP's measures for public sector digitalisation will provide funding and support in these directions.

The new Ministry of Technological Innovation and Digitalisation is well placed to bolster digital transformation across Italy's diverse public administrations and levels of government. Some administrations are leading innovators while others lag for want of capacity or prioritisation. Analysis of Italy's municipalities finds that those that invest more in digitalisation have more efficient delivery of administrative services and spend more of their EU-funded investment projects (Figure 2.11, Panel A). Conversely, limited digitalisation has held back Italy's public employment services effectiveness (OECD, 2019[89]) (discussed in Box 2.12). An effective approach would be to pursue the strategy of not requiring agencies to adopt a uniform system, but developing a common platform to coordinate and enable digitalisation across the public sector, by building shared platforms, guidelines and standards to homogenise digitalisation processes, and shared digital and data architecture to which different administrations can easily connect their systems or adapt to their needs. The NRRP's strategy of developing a public administration 'cloud', while allowing administrations to use their other solutions, seems consistent with this flexible approach. As a central agency, the Ministry may help break down barriers to coordination, such as data hoarding, and help agencies develop the business cases for digital governance projects.

Attracting digital talent and developing up-to-date skills across the public administration is essential to hastening its use of digital and other technologies (OECD, 2021[69]). Public administrations in Italy, like many OECD countries, lack sufficient skills for developing, implementing and maintaining digital technologies, and for using and realising the potential of digital tools. For example, effectively using the data generated through digitalisation requires processing, analytical and interpretation skills many public servants lack. While many private firms in Italy also suffer shortages of these skills, the public sector's hiring freezes and weak skill planning strategies have accentuated its skill gaps. As workers with these skills are scarce, receive a salary premium and tend to have dynamic careers, the public sector needs

more agile recruitment and career management to attract and retain these workers, as discussed above. Meanwhile few public servants have opportunities to build relevant skills – for example, only 9.5% of municipal governments' personnel participated in ICT training in 2018, mostly on specific applications and IT security (Istat, 2020[90]). The NRRP includes a programme to recruit, train and otherwise strengthen the public sector's digital skills. Expanding this to also develop public servants' skills in using the benefits of digitalisation, such as data analysis, would help digitalisation lead to a deeper transformation of the public sector. The public service's internal training supply and quality could be bolstered by developing options from both Formez (the in-house training body) and private providers, along with clearer information about the training's quality and relevance.

## Figure 2.10. Italy has made significant progress in transforming public services through digital technologies and data, but take-up lags




Note: The OECD Digital Government Index aims to measure the digital transformation of the public sector at the central government level, understood as the transition from e-government to digital government, across six dimensions.
Source: OECD Survey on Digital Government 1.0. https://www.oecd.org/gov/digital-government-index-4de9f5bb-en.htm

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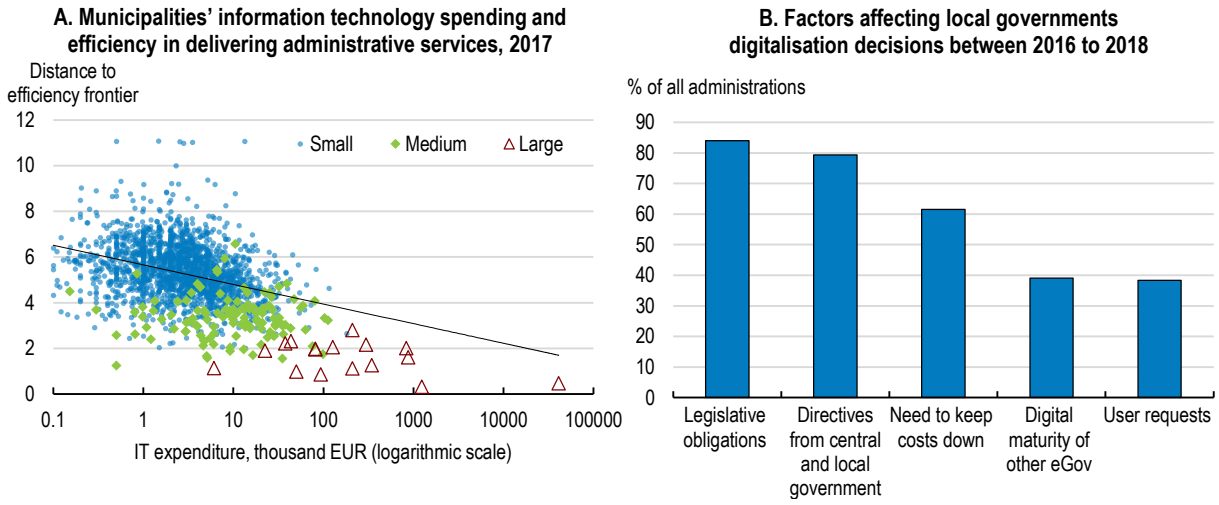
An effective regulatory framework helps the public sector to become 'digital by design' rather than 'digital by default', and can support users' take-up. Regulation can drive digitalisation, especially where capacity is scarce or incentives to change are weak. Indeed, compulsion has been the main driver of digitalisation for many of Italy's subnational governments (Figure 2.11, Panel B). Regulation can also support demand for digitalised public services, for example by assuring users that their personal data are protected while being strategically used to improve services, integrity and transparency (OECD, 2019[91]). Rapid changes

in emerging technologies mean prescriptive regulations, such as of technical standards, are quickly outdated and can hinder digitalisation. Parts of the Digital Administration Code risk this fate. Effective regulation should be framed in terms of minimum outcomes to be achieved, while encouraging users to innovate in how they achieve these outcomes (Ubaldi et al., 2019[92]; Attrey, Lesher and Lomax, 2020[93]).

## Figure 2.11. Local authorities that digitalise are more effective, but most only digitalise when compelled




Note: Panel A: Municipalities closer to the efficiency frontier (defined as services delivered relative to expenditure, controlling for the municipality's attributes) are closer to the most efficient municipality. Administrative services relate to municipalities' technical, urban planning, housing and land registry offices. IT expenditure include spending on computer and hardware, software, database and licenses. The relationship controls for municipalities' attributes, including size. 'Small' municipalities' population is below 50 000, 'medium' between 50 000 and 250 000, and large above 250 000. Panel B: Share of local administrations reporting that a factor "fairly" or "very" affected their digitalisation decisions between 2016 and 2018, as percentage of all administrations.
Source: OpenCivitas; Istat and OECD calculations; ISTAT (2020), Local public administrations and ICT: 2018.

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## Box 2.11. Strengthening staffing and digitalisation to deliver more effective active labour market policies

Italy's government over recent years have been making welcome investments to develop accessible, modern and effective active labour market policies (ALMPs), and Italy's National Recovery and Resilience Plan furthers these efforts. While some regions offer innovative and high quality ALMPs, their access and effectiveness is limited in many of the areas with the greatest labour market needs (OECD, 2019[6]). Effective ALMPs can help address the weaknesses in participation and skills in the labour market, especially in lagging regions and among youth and women (Card, Kluve and Weber, 2017[94]). They can improve the workforce's resilience to crises by promoting reskilling and access to emerging work opportunities (OECD, 2018[95]). In many countries, public employment services deliver social protection, and Italy has made the public employment services and associated job search, social support and adult education central to the national rollout of the guaranteed minimum income scheme.

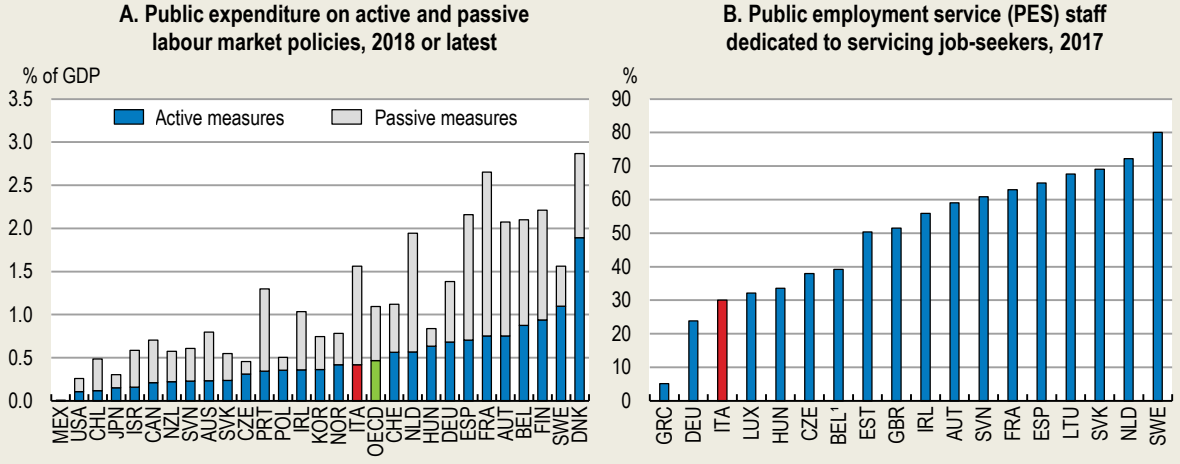
Raising the effectiveness of Italy's ALMPs will require addressing many of the challenges to broader public sector effectiveness discussed in this chapter. While overall spending on ALMPs is near the average of OECD countries, reallocating funds to the highest-performance policies can improve outcomes (OECD, 2018[95]). Italy's overall spending on labour market policies is tilted towards passive measures such as unemployment benefits and related welfare measures (Figure 2.12 Panel A). While hiring and wage subsidies can encourage employers to hire and provide work experience to groups who otherwise would

not find work, targeting can be poor. Evaluations across OECD countries find that active measures, such as job placement or training and skilling programmes, are more cost-effective at moving more workers into better-quality jobs in the longer-term. Italy's active labour market spending per unemployed is low, and it could regularly review and reallocate its mix of labour market spending.

Italy has recruited 3 000 fixed-term employment service 'navigators' for regional public employment services, to reversing low and declining staffing. These recruits' contracts will expire at the end of 2021 and will be followed by a new recruitment round. Caseloads are higher across Italy's public employment services and a lower share of workers service jobseekers than in other OECD countries (Figure 2.12. Panel B). Most public employment service staff had been in their positions for extended periods and lacked the training or skills for modern employment services, especially in high unemployment regions (OECD, 2019[89]). The current strategy of hiring contract staff may help to swiftly harmonise staffing across offices. However, targeted hiring and training of skilled staff, and offering these staff career prospects and incentives linked to performance, would help develop a more effective, professional workforce.

Strengthening and pooling IT services, such as online registration and support, effective database management and communication tools, and exploiting artificial intelligence, could greatly expand ALMP capacity and quality and allow more staff to shift from administration to supporting jobseekers. A new national IT system developed in 2017 was abandoned due to technical difficulties. Instead, the ANPAL could develop IT systems with a flexible architecture that support, for example, the diverse public and private bodies in developing and connecting their databases and information and management systems, mirroring the approach of the Digital Transformation Team described above.

## Figure 2.12. Italy has room to shift resources to active labour market policies with a greater focus on serving jobseekers




Note 1: Passive labour market policies include income support, such as unemployment compensation programmes and programmes for early retirement. Active labour market spending includes all social expenditure (other than education) which is aimed at the improvement of the beneficiaries' prospect of finding gainful employment or to otherwise increase their earnings capacity. This includes spending on public employment services and administration, labour market training, special programmes for youth when in transition from school to work, labour market programmes to provide or promote employment for unemployed and other persons (excluding young and disabled persons) and special programmes for the disabled.
Note 2: Data for Belgium is the unweighted average of the Actiris, FOREM and VDAB PES.
Source: OECD (2021), Labour Market Program Statistics, Employment (database); EC (2017), Assessment Report on PES Capacity 2017, http://doi.org/10.2767/880082.

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## Better leveraging who across the government delivers public services and investments

### *The contribution of multi-layered government to public sector effectiveness*

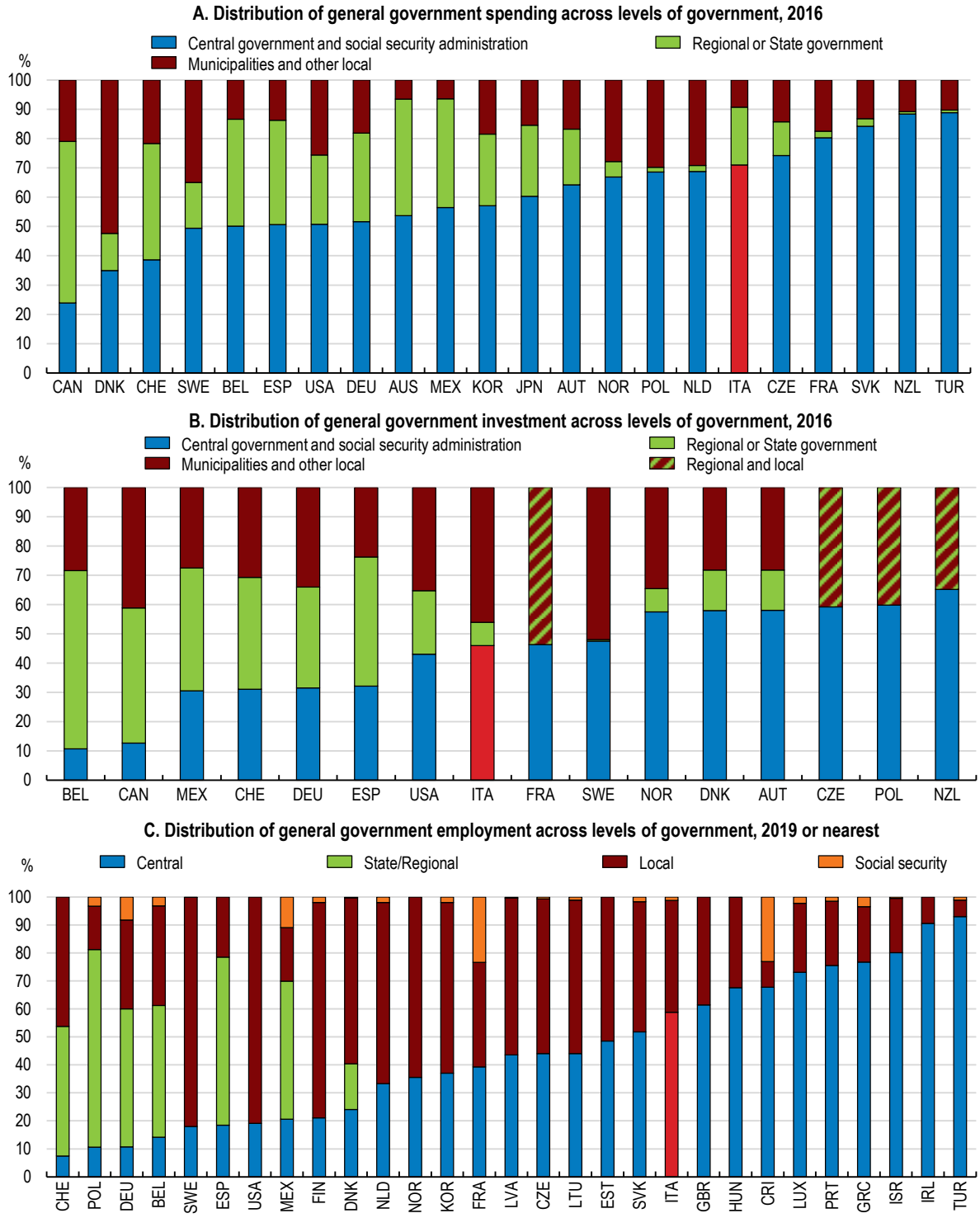
Italy has become a moderately decentralised country over the past 25 years (Figure 2.13). Across its multi-layered government, it has progressively shifted administrative and fiscal responsibilities, moving mostly from its central and provincial governments to its regional governments (OECD/KIPF, 2016[96]). Effective decentralisation requires balancing governments' proximity to users and taxpayers, its scale to operate efficiently, and the variation in service quality that can be accepted across a country. Empowering subnational governments while making them accountable for the public goods and services they deliver can boost the public sector's effectiveness. Some of Italy's regions have used their rising autonomy to innovate and provide among the highest quality public goods and services in the OECD, but overall decentralisation has contributed less than hoped to improving service delivery, and has allowed Italy's long-standing regional disparities to widen, as described in the 2019 OECD Economic Survey of Italy (2019[6]).

In Italy, overlapping responsibilities for determining standards and delivering public goods and services, and varying capacity between different administrations, weaken the benefits of its multi-layered government and often impede the public sector's effectiveness. This has dragged service delivery in priority areas, such as in active labour market policies or in providing quality early childhood education and care (Box 2.12 and Government is spread between the central government, 20 regions including five with special autonomy status, 110 provinces and 7 900 municipalities. Municipalities remain responsible for delivering many public goods and services, including most public investment spending, but most are small – 92% of Italy's 7 900 municipalities have fewer than 15 000 inhabitants (Figure 2.15). The relatively new metropolitan authorities have shown their effectiveness in some domains, but have not received some of the functional responsibilities or, in some cases, do not cover all of the territory relevant to the effective metropolitan area, limiting their contribution to improving public good and service delivery (OECD, 2019[6]). Proposals to streamline responsibilities and layers of government failed with the rejection of the 2016 constitutional referendum, and left provincial governments in place, despite their few remaining responsibilities. Reinvigorating the streamlining of responsibilities and simplifying the structure of government bodies, such as consolidating smaller municipalities in urban areas, could contribute to consolidating public sector capacity and improving service delivery.

Allocating responsibilities across layers of government is a cornerstone of successful decentralisation (OECD, 2019[97]). Italy's 'concurrent competencies' for delivering many services create difficulties in coordinating between different government bodies. The central government sets national service standards, which subnational authorities are responsible for achieving. While this approach is shared by a number of decentralised countries, it creates challenges when organisational or financial capacity varies significantly between subnational governments. In some areas, such as active labour market policies or early childhood education and care (Box 2.13), delivery is further hampered as responsibility transitions from provinces or municipalities to regional bodies, or as these standards are developed and implemented, especially in lagging regions (Box 2.12 and (Box 2.13). While legislative changes and court decisions have reduced some uncertainty, further clarifying the sharing of responsibilities across levels of government will improve effectiveness. Responsibilities merit being regularly reviewed and reallocated as needs and the context evolve.

Building bodies and practices that help different government bodies coordinate and cooperate would better leverage the benefits of multi-layered government, for example by helping find pragmatic work-arounds to imbalances in Italy's formal allocation of responsibilities. Italy's Conferences that bring together the central government with regional and local governments are intended to play this role. These Conferences' scope could be extended across policy areas and their resources for analysis and capacity support boosted so that they can better identify and support adoption of effective practices.

## Figure 2.13. Italy is moderately decentralised, and subnational governments have an important role delivering public investment




Note: Panels A and B use national accounts and national sources that complement the national accounts data, although these not been fully consolidated, to enable identification of the regional government data. Panel C is sourced from ILOSTAT, and follows the national accounts institutional definitions, which may not specify regional governments in non-federal countries.

Sources: OECD (2021), Regional Government Finance and Investment (REGOFI, database) (Panels A and B); International Labour Organization (ILO), ILOSTAT (database), Public employment by sectors and sub-sectors of national accounts (Panel C).

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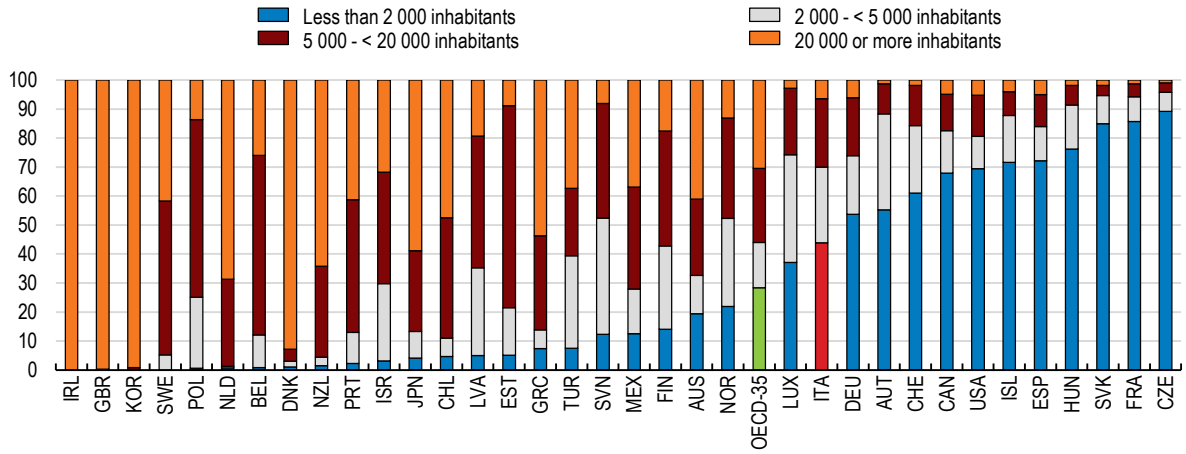
Italy has made important progress in reducing the imbalances between revenues and spending responsibilities between its different layers of government. However this has mostly been through the central government cutting its transfers to subnational and especially local governments by over half between 2007 and the late 2010s, leading subnational governments to boost the relative importance of their own revenues. The government has implemented a sophisticated equalisation system that assesses the cost of delivering particular public services, the actual costs incurred, and the needs and capacity of each government body to provide those services, although it only applies to a very small share of expenditure and these measures do not address overall inequalities in revenues (Dougherty and Forman, 2021[98]). Evidence suggests that this system is improving allocations and subnational governments' capacity to deliver goods and services, especially those facing higher needs or more difficult operating environments (Brosio, 2018[99]). Broadening this equalisation system's use, even if this entails using less sophisticated equalisation calculations, would expand these benefits.

### Figure 2.14. Most of Italy's 7900 municipalities are small

Distribution of municipalities by population size, 2016




Source: OECD (2018), Subnational Governments in OECD Countries: Key Data (database).

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Heightened transparency and accountability drive many of the benefits of multi-layered government. In many areas Italy has rich data on subnational governments' performance, such as the OpenCivitas data generated through the equalisation grant process. Pursuing such data collection and analysis efforts across policy areas and levels of government, and further developing such data and analysis for all regions and provinces with special autonomous status, would support accountability. Better using these data to prepare easily communicable benchmarking reports of different governments' performance would help with citizen engagement, and create stronger incentives for governments to improve performance.

### *Improving delivery of public investment by subnational governments*

Italy's public investment spending fell by 35% in nominal terms from its peak in 2009 to 2014, to 2.3% of GDP, insufficient to maintain even the existing public capital stock. Public investment gradually recovered over the following years, but in 2019 was still 23% lower than a decade earlier. Administrative capacity has been a long-recognised brake on public investment. While public investment budgets were cut, many administrations were not able to implement even the remaining the projects. For example, Italy disbursed less of European Structural, Social and Investment Funds than the average of other EU countries, itself disappointing, especially over the 2014-2020 period (as discussed in Chapter 1). Measures implemented to reduce corruption risks and improve integrity made processes more administratively involved, and have been blamed in part for this underspending, even if these measures generally incorporate or exceed international norms and address perceived integrity risks.

### Box 2.12. Better collaboration across different levels of government to deliver active labour market policies

Management of active labour market policies (ALMPs) has followed Italy's broader trends and challenges in delivering services across multiple layers of government. Responsibility has been consolidated from over one hundred provinces into 21 regional bodies. The plan to further consolidate responsibility into the National Agency for Active Labour Market Policies (ANPAL) were scuttled by the failure of the 2016 Constitutional Referendum. ANPAL has since focused on bolstering public employment services by developing national minimum standards, monitoring indicators and by supporting regional agencies. Since 2019 the central government has provided regions with significant funding to strengthen their public employment services. However, coordination across regional ALMPs needs further strengthening. Trust and communications between different institutions are often absent (OECD, 2019[89]). Coordination across different ALMPs (social services, adult and vocational learning) remains limited (European Commission, 2020[25]), as regional authorities believe that regional labour markets differ substantially.

To overcome these challenges, ANPAL can better integrate the staff it absorbed from regional agencies who work on delivering ALMPs on the ground. It can develop evaluations of regional operators, identify and disseminate effective practices across Italy, and provide regional agencies with financial incentives to adopt these. The EU-wide Public Employment Services Network provides a model for such benchmarking, exchanges and continuous learning (Fertig and Ziminiene, 2017[100]). Spain, with a similar fragmentation of ALMPs across regional labour markets as Italy, has successfully adopted this model and fostered cooperation through communications and exchange platforms.

Several regions have developed quasi-markets in public employment services that allow private employment services to complement public providers, presenting a model for significantly expanding access. For example, the "assegno di ricollocazione" job search voucher, introduced in 2017, allows jobseekers to choose either a public or private employment service provider. Design issues limited the scheme's early success, including the limited package of services users could access, the stricter activation conditions for users receiving social transfers, and the parallel operation of regional and national schemes. By learning from these issues, and developing the role of private providers across all regions, Italy can rapidly expand ALMPs' access and quality. Developing cooperation between public and private employment services, along with practical measures such as ensuring different services' databases and systems communicate, would improve the matching between jobseekers and employers. Finland and Spain have demonstrated the benefits of such approaches (ICON-INSTITUT Public Sector, 2018[101]). Central bodies can support public-private collaboration by ensuring that IT infrastructure is in place, and that performance information are collected, analysed and used to encourage performance. Strong, independent supervision and reviews are essential for such a hybrid system to succeed, as demonstrated by Australia's evolving outsourcing of employment services (Education and Employment References Committee, 2018[102]).

## Box 2.13. Measures to improve delivery of early childhood education and care in lagging localities

In Italy, overall enrolment in early childhood education and care (ECEC) among children aged 3 years and older is high, approaching 100%, but there are only enough places for one-quarter of children aged 0 to 2. Differences between regions are large, with places for almost one-half of children in some areas of the North but fewer than one in ten in Campania (Figure 2.15. Panel A) (Istat, 2019[103]). While the number of places has increased over the past decade, Italy is still well short of its target of places for one-third of children that other OECD countries provide on average or that Italy had aimed to achieve by 2010.

Expanding access to childcare can make inroads into several of Italy's long-term challenges. The National Recovery and Resilience Plan's EUR 3.9 billion boost to childcare funding can expand supply while ensuring consistent minimum quality. Access to affordable and quality care for very young children raises women's likelihood of seeking work, especially in lower income households, which can improve the inclusiveness of Italy's labour market and reduce gender inequalities (Figari and Narazani, 2019[104]; Carta, 2019[105]). Time in childcare improves children's performance through the course of their education and can particularly benefit children from disadvantaged households (OECD, 2017[106]). When affordable facilities are not accessible or not trusted, families often turn to their extended family to care for children. While this may reduce costs, it is often less pedagogical, and relying on this care makes it more difficult for families to relocate to regions with better employment opportunities.

Low enrolment rates reflect scarce places more than high fees for users. Waiting lists are long, even in areas with more places (Carta, 2019[105]; European Commission/EACEA/Eurydice, 2019[107]). The average net costs for households is near the OECD average, and households pay about 20% of the cost of ECEC on average. Households on average pay about EUR 300 per month for a place in a public facility and about double this in a private facility, and municipalities may charge lower income households less for places in public facilities. Since 2012 Italy has supported households' childcare costs, currently through a benefit linked to income or a capped tax credit (Hyee et al., 2020[108]).

### Better using staff and adjusting outsourcing to expand the number of quality places

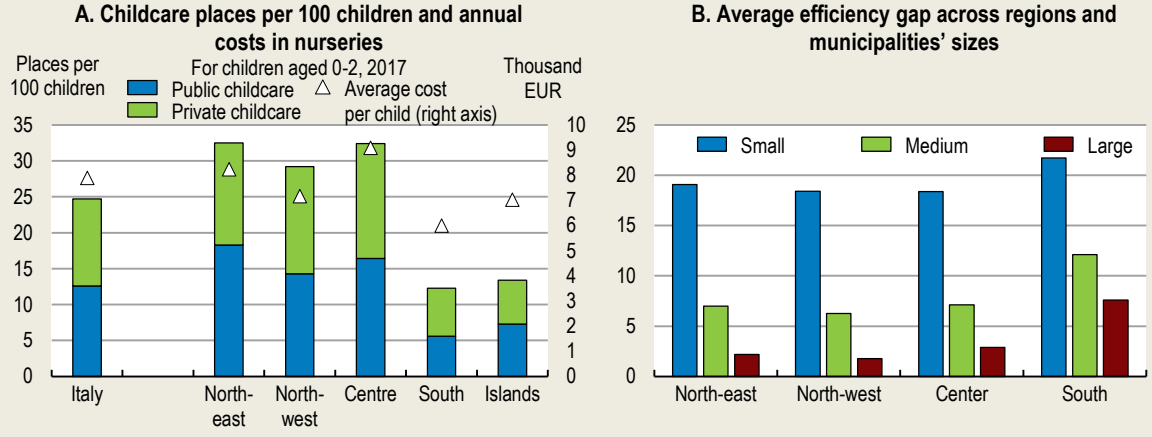
The cost of providing childcare varies widely across Italy, suggesting significant differences in quality and in the effectiveness with which childcare is provided (Bulman and Doino, Forthcoming[55]). Improving the efficiency of lagging regions would increase the number of places available with existing resources. About 80% of places are in traditional nurseries, split approximately equally between municipal and private providers. Focusing on nursery places, OpenCivitas municipality-level data suggests that the most efficient municipalities at providing nursery places are medium-sized towns in the North-West.

Recruiting skilled public nursery staff and enlarging public nursery spaces appear to be more effective at increasing the number of childcare places available than increasing private facilities' staffing and space. Generally towns with more places available provide those places more efficiently in terms of lower costs for staff time, space rental and administration per place. Municipalities that provide childcare more efficiently tend to have younger administrative staff who have more years of education. This underscores the importance of recruiting staff with relevant, up-to-date skills, and is consistent with findings from similar studies in Saxony (Montén and Thater, 2011[109]). Outsourcing to private providers reduces the efficiency of childcare, despite generally lower staff costs at private providers compared with public childcare services. This may reflect more staff and space per child in private nurseries than in public centres, or differences in quality that are not measured.

**Coordinating across levels of government to ensure consistent, quality care**

Ensuring that childcare places are of adequate quality is essential in encouraging parents to place their children in the facilities. Ensuring ECEC across Italy exceeds a national minimum standard, including for pedagogical content, would help redress regional inequalities in quality and encourage use. Lower quality ECEC can discourage households from using public childcare services, especially for households in higher socio-economic groups. The national Ministry of Education has recently developed educational guidelines and a common national ECEC monitoring framework. It also allocates financing to local authorities and has required since 2020 that ECEC staff have at least a relevant bachelor's degree (Taguma et al., 2017[110]; European Commission/EACEA/Eurydice, 2019[107]). The Ministry of Labour and Social Policies and the Department of Family Policies are responsible for ECEC for children up to age 3, but regional authorities organise and monitor the delivery of the services within their territories. The central government agencies could support regional bodies in the use of a national monitoring framework and tool, and provide targeted support to local administrations that fail to meet these standards. Regularly publishing clear indicators of childcare centres' quality, such as the number of staff and surface area per child and certifying that centres meet national minimum quality standards, would improve transparency and users' choice of centres.

## Figure 2.15. Improving the efficiency of childcare services would help raise access




Note: Panel A: Annual cost per place in a nursery. Panel B: a lower efficiency distance indicate that the municipality is closer to the municipality that provides places at the lowest cost per place. The relationship is estimated using a data envelopment analysis with output-oriented efficiency score and non-increasing returns to scale, and controls for the number of 0 to 2 year olds in the population and input prices. See Bulman and Ruggero (forthcoming), "What helps Italian municipal governments effectively deliver public goods and services? An empirical investigation", Technical Background Paper. 'Small' municipalities' population is below 50 000, 'medium' between 50 000 and 250 000, and large above 250 000.
Source: Istat (2019), Supply of Services for the Early Childhood Education: School Year 2017/2018; OpenCivitas database and OECD calculations.

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At the central government level, Italy has in place many of the mechanisms for effective public investment, especially in transport infrastructure (OECD, 2017[111]). For example, there are up-to-date guidelines to evaluate public investment based on cost-benefit analyses that account for social and environmental impacts. The arrangements for public-private partnerships have been standardised across all central and sub-national governments. Yet, in practice, the problems that beset public investment projects in most OECD countries are often worse in Italy (OECD, 2019[6]), notably long delays in delivering projects, cost over-runs, and haphazard evaluations before projects start or after they are completed.

Raising Italy's public investment is central the National Recovery and Resilience Plan (NRRP), and will be vital to supporting the transition to a lower carbon economy and to filling gaps in Italy's infrastructure, especially in lagging regions (OECD, 2019[6]). Public investment, ranging from school buildings to the infrastructure for e-government, can contribute to improving public service effectiveness more broadly. The NRRP allocates nearly 11% of 2020 GDP to additional public investment over 2021 to2026 (detailed in Chapter 1). It provides a detailed medium-term project pipeline that is integrated into broader policy objectives, notably to support a shift to higher productivity, digital, and lower greenhouse gas emission activities. Such an approach is consistent with OECD *Recommendations on Effective Public Investment* (OECD, 2018[112]).

To accelerate disbursement, the 2020 Simplification Decree and measures in the NRRP temporarily relax procurement requirements, streamline execution processes and boost associated administrative capacity. A central office in the Prime Minister's office will oversee execution, and be backed by a technical secretariat. This is intended to rapidly identify and address obstacles to executing NRRP investments. Such dedicated delivery offices at the centre of government have proved effective in achieving major, complex projects in Italy and other OECD countries. Benchmarking projects' contribution to social welfare as projects are completed can inform adjustments to the project pipeline and implementation (Pisu, Hoeller and Joumard, 2012[113]).

### *Strengthening subnational governments' capacity to implement public investments*

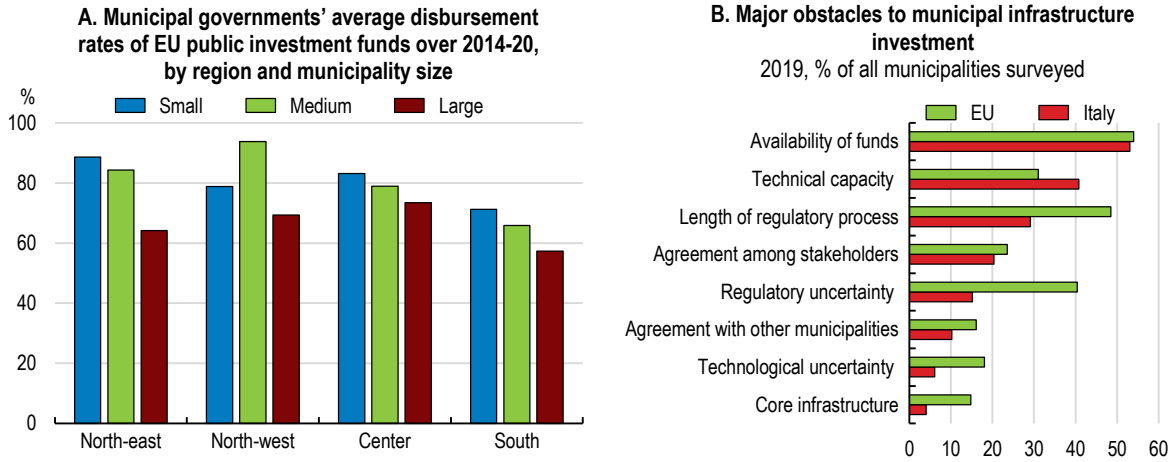
Subnational governments are central to improving overall public investment performance in Italy, as they are in other OECD countries that face challenges in boosting public investment, such as Germany (OECD, 2020[114]). Italy's local governments spend 55% of the national public investment budget (Figure 2.13, Panel C). Poor execution in larger municipalities explains most of the public investment underspending by local governments. Smaller municipalities were more likely than larger municipalities to disburse all of their EU-funded investment projects at end of the 2014-2020 period (Figure 2.16). Municipalities' staffing and project selection strategies can improve their disbursement rates. Econometric analysis suggests that municipalities have higher disbursement rates if their employees are younger, if their administrations are smaller (controlling for population size), if they undertake fewer and smaller projects, or if they invest more in information and technology (Bulman and Doino, Forthcoming[55]). This suggests that more judicious selection of projects, and supporting capacity, would improve municipalities' public investment disbursement. The NRRP's focused investment in staff capacity and support for executing projects are steps in the right direction and may merit being extended if effective.

Developing Italy's mechanisms for cooperation across multi-layered governance would help address public investment opportunities and bottlenecks, coordinate across overlapping policy and regulatory competencies, and ensure resources and capacity are in place to undertake the investment projects. Overall municipalities in Italy are more likely to consult with other bodies in designing and implanting public investments than in most other European countries. However, the length of approval processes is a much greater obstacle to investment (European Investment Bank, 2017[115]). Differences across subnational governments in regulation and processes are particularly cited as a factor delaying public investment project approval and execution in Italy (OECD-CoR, 2015[116]). Countries such as Australia find that mixing formal and informal coordination mechanisms to be most effective, as they complement each other in building trust and communications between different actors (Bounds, 2012[117]). New Zealand has developed local government clusters and Switzerland has developed multi-jurisdictional projects to pool capacity, develop specialisation, increase consistency and efficiency, and share knowledge (Allain-Dupré, Hulbert and Vincent, 2017[118]; NZ Productivity Commission, 2013[119]).

One approach in Italy would be to strengthen Italy's Conferences that bring together different levels of governments. These Conferences could identify areas where divergences in regulation and processes impede infrastructure projects, and negotiate agreements to align these regulations and approaches.

Similarly, the efforts introduced in the mid-2010s to pool municipalities' project procurement into larger agencies merit being pursued, as these agencies have the deeper capacity to design and evaluate the greater complexity of public investment projects, and to manage disputes when bidders contest contract decisions, which often delays projects.

## Figure 2.16. Larger municipalities execute a lower share of their public investment projects




Note: 'Small' municipalities' population is below 50 000, 'medium' between 50 000 and 250 000, and large above 250 000.
Source: OpenCivitas database and OECD calculations; European Investment Bank (2020), EIB Investment Survey.

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Collaboration and capacity support across different government bodies can contribute to filling gaps in capacity. InvestItalia, a new agency dedicated to supporting different government agencies design, obtain approvals, and implement investment projects is one model that, if it were to be fully developed and prove effective during its initial stages, may merit scaling up alongside the NRRP's boost to subnational governments' staffing. Adjusting the responsibilities and coverage of metropolitan authorities, through agreement with other levels of government in the first instance, could be another that improves capacity in the larger municipal areas, as recommended in the 2019 *Economic Survey of Italy* (OECD, 2019[6]). Implementing agencies can also better mobilise private sector expertise and support for technical aspects of implementing projects. The risk of 'capture' by private contractors can be mitigated if these arrangements are designed carefully and by ensuring that public officials have the skills to effectively supervise the private providers.

Attracting technical and professional staff to local planning roles will require flexibility on recruitment and remuneration to make these positions attractive, as discussed above. The NRRP envisages hiring significant numbers of technical staff to fill capacity gaps in subnational governments. Longer-term, developing a technical position stream would allow public authorities to compete for civil engineers or other high demand professionals. Alongside support for hiring, the central government can help municipal administrations develop their staff's skills by providing centralised courses, following for example the approach of the United Kingdom's Infrastructure and Projects Authority, which cooperates with Oxford Saïd Business School (Global Infrastructure Hub, 2019[120]).

### *Ensuring public enterprises effectively provide public goods and services*

Public enterprises play a significant role across Italy's economy (Figure 2.17, Panel A). The state held equity in 8 500 enterprises employing 924 000 workers and generating over 7% of total value added in 2018 (Istat, 2020[121]). Most are small enterprises partly or fully owned by municipal or other subnational

governments (Figure 2.18): 84% of public enterprises have fewer than 50 employees, and 43% have average annual turnover below EUR 500 000. Meanwhile, the Ministry of Finance has majority ownership or effective controlling stakes in 20 listed and non-listed industrial companies worth 12% of the Italian public equity market at the end of 2017 and that employ most of the workers at public enterprises. These holdings increased with the equity injections to sustain companies during the COVID-19 crisis (De La Cruz, Medina and Tang, 2019[122]; Ministry of Economy and Finance, 2020[123]; OECD, 2017[124]).

Many public enterprises were originally established by one or several local administrations to provide water, energy, and waste management, and these were the principal activities of about 23% of public enterprises in 2018 (Figure 2.18). Some subnational authorities developed enterprises so as to provide goods and services, such as information technology services, outside of the spending and employment constraints imposed on the core administrations during the early 2010s, leading these spending and employment rules to be extended to public enterprises. Thirty percent of public enterprises provide administrative, professional and technical, or information and communications services, and are generally owned by multiple subnational administrations (Figure 2.17, Panel B and Figure 2.18) (Istat, 2020[121]).

The broad scope, large number and complex ownership and regulation of Italy's public enterprises weaken their service delivery effectiveness and makes improving their performance challenging. Goods and services provided by public enterprises have recorded faster price rises and lower customer satisfaction than other goods or services or than is found in other OECD European countries (Karantounias and Pinelli, 2016[125]). Local authorities often award contracts directly to public enterprises, and the requirements of the 2016 procurement reforms (discussed above) do not apply to many public enterprises, even when they are partly owned by private investors. Direct procurement is generally associated with less efficient service delivery (Bulman and Doino, Forthcoming[55]). Public enterprises operate under private corporate law, although since the mid-2010s they are subject to the spending and employment constraints that apply to the general public administration. Derogations from private corporate law constrain public enterprises' governance, for example by regulating their management pay, use of consultancies, how they recruit and manage their workforce and subject them to official audit. In addition, their public ownership can have the effect of limiting their ability to restructure, close activities or dismiss workers. Despite these restrictions on public enterprises' management, their financial performance overall improved over the 2010s, especially in northern regions (Ministry of Economy and Finance, 2020[123]).

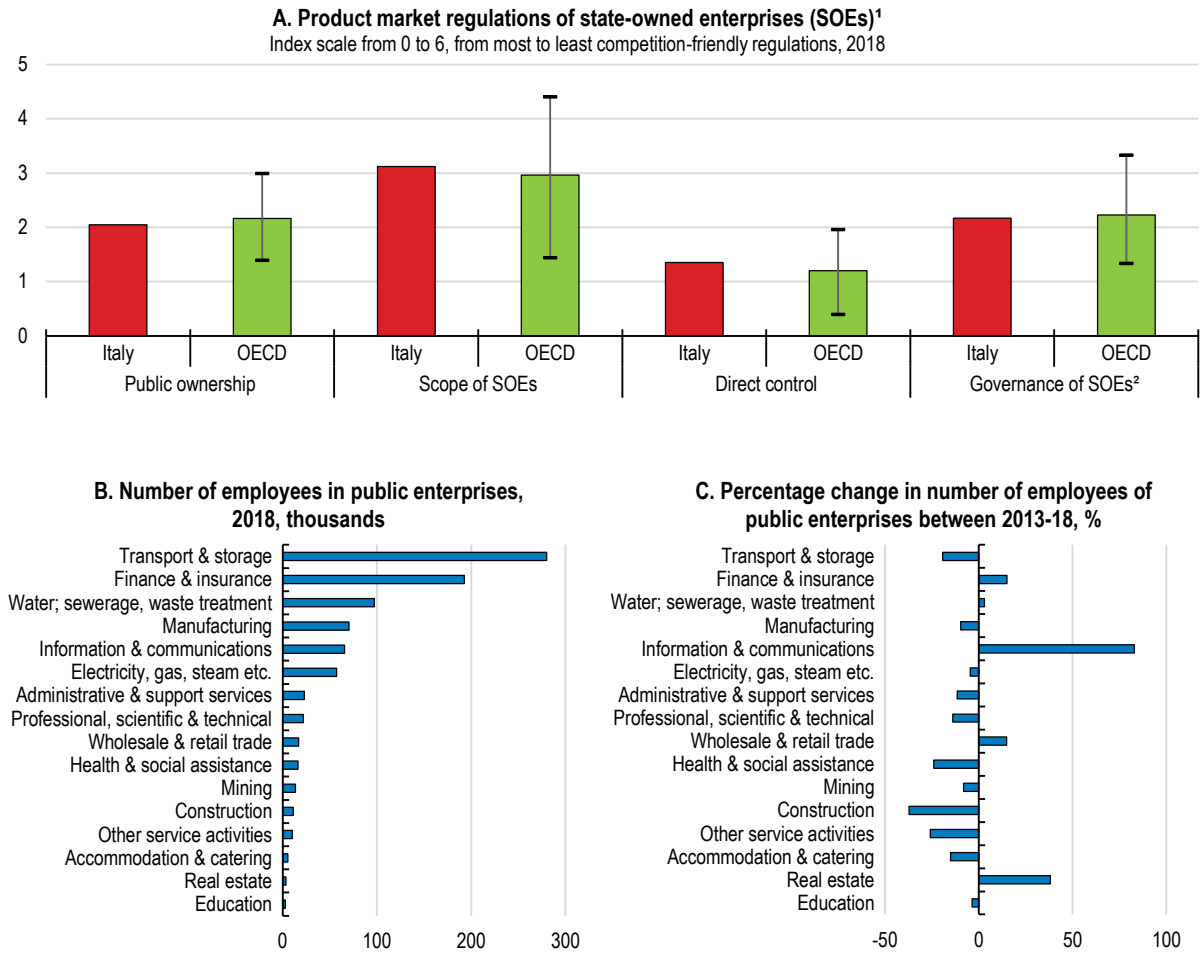
Since 2015 the central government has required public authorities to reduce public enterprise holdings, by closing or divesting those that did not meet criteria for providing public goods or services in a financially sustainable manner. The number of public enterprises declined by 20% between 2012 and 2018. To assess progress the Ministry of Finance and Economy started annual audits of public enterprises. Of the public enterprises that the Ministry of Finance and Economy assessed to not meet the financial and service delivery criteria for being retained, public authorities only intended to dispose of half and wished to retain the remainder. Public authorities were scheduled to dispose of 750 enterprises between 2015 and 2020, out of their holdings of 2 500. They disposed of 392, generating EUR 430 million, while the others were not disposed of due to inflexible sales processes or because authorities did not take the necessary steps to achieve a sale or closure. In 2019 the central government extended the deadline for public authorities to divest until the end of 2021, and suspended the requirement to sell public enterprises that had been profitable even if they do not provide core public goods and services.

The government's strategy of divesting from public enterprises that fail to provide public goods and services, or that generate significant fiscal risks, is worth pursuing. It will be especially important following the COVID-19 crisis, which may raise the public sector's equity holdings in enterprises. The government can improve the performance of core public enterprises, while freeing other enterprises from the constraints of public sector ownership and winding-up defunct or shell enterprises. For the enterprises that remain in public ownership, governance could be improved by ensuring public enterprises follow the OECD (2015[126]) *Recommendations on Corporate Governance*. Identifying small public enterprises that are

financially viable and that would benefit from consolidation would increase their scale, supporting productivity and management quality.

In conjunction with consolidating small public enterprises, encouraging larger financially viable public enterprises to list on regulated public equity markets can improve their governance, as publically listed enterprises must meet higher governance standards. Nonetheless enterprises that are both listed and publically owned continue to need additional oversight to support integrity and efficient operations (OECD, 2016[127]). Public listing can improve public enterprises' access to finance, allowing them to invest and improve their productivity while reducing fiscal risks for taxpayers (OECD, 2020[128]). Listing public enterprises would also help deepen Italy's financial markets. To achieve this, the Ministry of Economy and Finance and its public enterprise holding unit could better support subnational bodies through a process to improve governance, consolidate and eventually to list or otherwise sell their public enterprises.

## Figure 2.17. Public enterprises play a large role in Italy, and their governance can be improved




Note 1: Whiskers indicate range of OECD countries between first and last decile.
Note 2: The governance of SOEs measures the extent OECD countries are aligned with key best practices, derived from the OECD 2015 guidelines on corporate governance of SOEs. It does not represent a formal OECD position on each country's implementation of these guidelines. For more information, refer to the PMR webpage.
Source: OECD Product Market Regulation Database; Istat, *Le Partecipate Pubbliche In Italia*, 2015 and 2020 editions.

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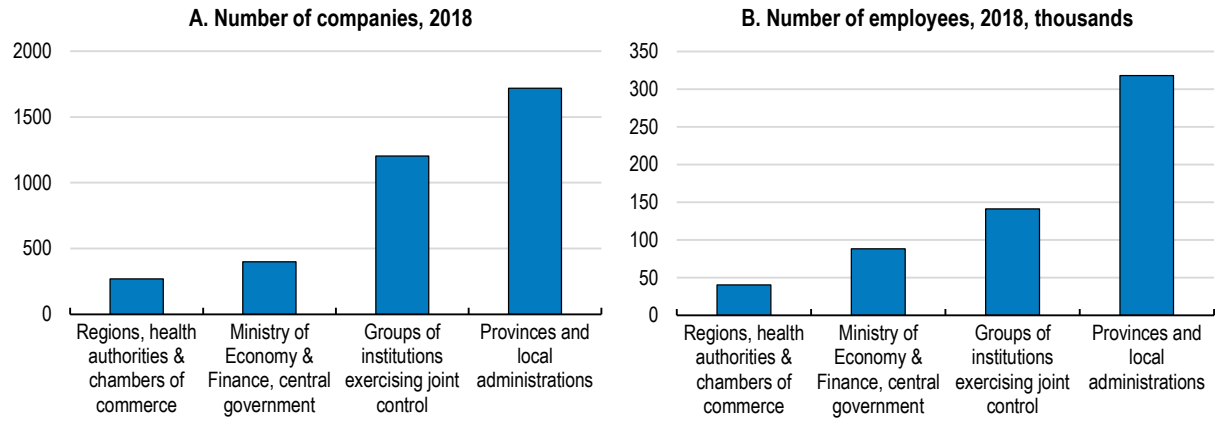
## Figure 2.18. Most public enterprises are held by local governments and many have few employees




Source: Istat, *Le Partecipate Pubbliche In Italia*, 2020 edition.

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## Policy recommendations

| MAIN POLICY FINDINGS | RECOMMENDATIONS (Key recommendations in bold) |
|---|---|
| **What the public sector does** | |
| Despite relatively high public spending, spending that can best support growth and well-being is low and has been falling. Budget processes do not support reallocations to more effective spending. | **Improve the allocation of resources and the effectiveness of spending through strengthened expenditure reviews and a succinct set of policy performance indicators.**<br>Develop expenditure analysis capacity within line ministries. |
| Processes for preparing regulations have improved, but the large stock of regulations and their enforcement remain burdensome. | **Undertake stocktake reviews of regulations affecting priority sectors.**<br>Develop the capacity for analysis and consultation to undertake regulatory reviews. Develop indicators of regulatory effectiveness.<br>Improve the quality of regulations while repealing unnecessary regulations.<br>Integrate plain language practices into legislative drafting and other official communications. |
| **How the public sector operates** | |
| A shrinking and ageing workforce and shortages of relevant skills hold back the public sector's ability to deliver. Pay rates are not competitive for higher-skilled professionals, and performance assessment systems are inadequate for performance-linked pay. The spectre of regulatory or judicial sanctions lead public servants so act defensively. | **Rejuvenate the public sector workforce, through more agile recruiting, training and career management, with a particular focus on filling skill needs such as those for the digitalisation of the public sector.**<br>Support mobility across the public sector, and between the public and private sectors, through more transparent vacancy information, recruitment, performance assessment and by recognising and rewarding career mobility.<br>Develop a strong set of values and ethical standards to encourage public servants to act for the broader public benefit, reduce defensive decision-making, and to help integrate new public servants and motivate existing staff.<br>Increase the granularity of pay scales, linked with performance, equivalent private sector pay rates, and local living costs.<br>Monitor the temporary shift in public servants' liability from acts taken to cases of deliberate inaction, with a view to expanding this shift to more areas and making it permanent. |
| The COVID-19 has added impetus to Italy's progress in public sector digitalisation and use of emerging technologies, which support more effective public services. Yet take-up has lagged. | Continue providing an architecture and platforms that support and coordinate diverse public agencies' digitalisation.<br>Prioritise recruiting and developing existing staff's skills to both implement and use digital tools.<br>Regulate to encourage public authorities to digitalise while ensuring that regulations are flexible, focus on outcomes, and give users greater confidence in digital public services. |
| Next Generation EU grant funds are significant at 13.5% of 2020 GDP. Historic absorption rate of EU funds has been slow, due to hurdles in designing, approving and implementing programmes. Procurement is slow, competition limited and capacity varies widely. Significant recent procurement reforms have been partly reversed, undermining efforts to award bids on the basis of quality or broader policy goals. | **Consolidate smaller agencies' public procurement activities into higher capacity bodies.**<br>Reinstate major elements of the 2016-17 reforms (widespread use of most economically advantageous basis for contract awards; reasonable thresholds for using negotiated procedures; registry of bidding companies), ensuring that complete implementing instructions and adequate training are in place, and seek to stabilise procurement arrangements.<br>Professionalise the procurement workforce in the core procurement agencies.<br>Expand capacity support, and coordination and communication across other government agencies engaged in procurement, especially to strengthen procurement's contributions to broader policy objectives. |
| **Who provides public goods and services** | |
| Italy's hybrid decentralisation and overlapping policy competencies allows for innovation but can inhibit implementing policies or providing consistent and quality public goods and services. | **Clarify competencies of different levels of government, supported by bodies that identify, disseminate and support effective practices.**<br>Further exploit information on sub-national governments' relative service delivery quality and cost effectiveness to encourage adopting effective practices. |
| The scope of Italy's many state owned enterprises is wide. Public enterprises often perform poorly at delivering public goods and services. While they have provided government authorities a means around constraints on hiring and spending, they have weakened public sector effectiveness. Subnational authorities have stymied efforts to consolidate and improve their governance, which have been suspended. | After the COVID-19 crisis subsides, resume the process of rationalising defunct public enterprises, and consolidating and selling those that are not financially viable or do not provide core public goods and services.<br>Support subnational governments in improving the governance of public enterprises.<br>As feasible, seek to list state owned companies on public equity markets, to subject them to the highest governance and transparency standards. |

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## OECD Economic Surveys

# ITALY

Italy's economy is recovering steadily from the COVID crisis, thanks to the vaccination campaign and generous fiscal support to households and firms. Risks to the outlook are large, including virus variants and the path of global interest rates. To raise growth and employment above pre-pandemic levels, the composition of public spending and taxes must improve. Together with implementation of the National Recovery and Resilience Plan, which includes critical structural reforms and investments, this can help support a faster transition towards a greener, more digitised economy. Realising this will require a demanding set of legislative and administrative reforms. Improving civil justice, tax administration and public investment will be essential to raise income growth. Making more effective use of performance information and spending reviews can help reallocate public spending to the most growth-enhancing activities. Reviewing the existing stock of regulations and how they are enforced would improve the business environment. Agile recruitment and better assessing, rewarding and supporting the performance of public servants would fill growing skill gaps in the public workforce. Improving collaboration across Italy's multiple layers of government would improve delivery of public services such as childcare and active labour market policies.

**SPECIAL FEATURE: STRENGTHENING PUBLIC SECTOR EFFECTIVENESS**

**Volume 2021/16**
**September 2021**

**PRINT ISBN 978-92-64-91211-3**
**PDF ISBN 978-92-64-79064-3**

**ISSN 0376-6438**
**2021 SUBSCRIPTION**
**(18 ISSUES)**

9 789264 912113